

# Iowa Property Tax Report

## Final Report

Submitted by

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Prepared for  
Legislative Property Tax Study Committee  
Senator Joe Bolkcom, Co-chairperson  
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Iowa General Assembly

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# Iowa Property Tax Report Final Report

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December 22, 2008

Ms. Susan Crowley  
Senior Legal Counsel  
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State Capitol  
Des Moines, Iowa 50319

Dear Ms. Crowley:

The purpose of this letter is to transmit to you and the Legislative Property Tax Study Committee our final report for the Iowa Property Tax Study as required by Section II.A.3 of our contract executed on July 2008.

We are sending 25 hard copies of the report to you via overnight express mail. We are also sending you electronic versions of all components of this initial progress report.

If you have any questions, please do not hesitate contacting us at your earliest convenience.

We look forward to discussing this draft progress report with you and the Committee in November.

Thank you.

Sincerely,

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# **Chapter 1**

## **Section A.4**

### **Valuing Commercial and Industrial Properties for Tax Purposes: A 50 State Survey**

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The purpose of this paper is to identify and review methods used by the states to value agricultural, residential, commercial, and industrial property for purposes of property taxation. In addition, The George Washington Institute of Public Policy (GWIPP) has been asked to identify those states that require an income or productive earnings capacity approach as the primary method of valuing all, or a specifically identified subset of, commercial or industrial property, or both, for purposes of property taxation. It has also been asked to identify which states utilize the highest and best use standard in valuing property for tax purposes.

The following table gives a brief overview of the contribution commercial property makes to the property tax base of Iowa and 12 states we have defined as being similarly situated to Iowa.<sup>1</sup> Commercial and industrial property accounts for 30 percent of the property tax base in the state of Iowa, the highest share of any states listed in the table. In no similarly situated state does commercial and industrial property account for as much as one-fourth of the state's property tax base. In four similarly situated states commercial and industrial property accounts for one-fifth or less of the state's property tax base.

We also wanted to look at effective tax rates paid by commercial property vis-à-vis other land use types. We searched the 50 state web sites and found only 13 states that listed information on effective property tax rates. Four of those 13 states are states similarly situated to Iowa – Minnesota, North Carolina, South Dakota and Wisconsin. All four states report effective tax rates by jurisdiction, but only South Dakota reports

State	Share of State Property Tax Base Attributable to Commercial and Industrial Property, 2006 (Percent)
Arkansas	Not Available
Idaho	22
Illinois	24
Iowa	30
Kansas	21
Kentucky	23

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<sup>1</sup> We include in similarly situated states Iowa's six neighboring states and another six states that depend on farming and manufacturing for a larger share of the state economy than states generally.

Minnesota	12
Missouri	21
Nebraska	18
North Carolina	19
North Dakota	22
South Dakota	Not Available
Wisconsin	20

effective tax rates by land use type. In 2005, commercial property in South Dakota had an effective tax rate of 2.42 percent compared to effective tax rates of 1.87 percent and 1.23 percent for residential and agricultural properties respectively.

The Minnesota Taxpayers Associate calculates effective tax rates for the largest cities in each state for residential properties and for the 50 cities with the highest effective tax rates for commercial properties. The following table reports 2005 effective tax rates for commercial properties valued at \$1 million for the cities listed in select states similarly situated to Iowa. The range in effective property tax rates is significant going from 1.14 percent for commercial properties valued at \$1 million in Louisville, Kentucky to 2.83 percent for commercial properties valued at \$1 million in Kansas City, Missouri.

State	Effective Property Tax Rate for Commercial Property Valued at \$1 million (Percent)
Arkansas	Not Available
Idaho	Not Available
Chicago, Illinois	2.80
Iowa	Not Available
Kansas	Not Available
Louisville, Kentucky	1.14
Minneapolis, Minnesota	2.77

Kansas City, Missouri	2.83
Omaha, Nebraska	2.02
Charlotte, North Carolina	1.21
North Dakota	Not Available
South Dakota	Not Available
Milwaukee, Wisconsin	2.35

### **Background to Valuation Methods**

Traditionally, state and local governments use three distinct methods for valuing property for tax purposes. The three methods, briefly explained below, are the cost, sales, and income approaches to valuation.

#### ***Cost approach***

Historically, most assessment jurisdictions started out with a valuation methodology that required breaking real property value into its two main component parts – land and improvements. The earliest method of valuation was the *cost approach*, which estimates the market value of land and then adds the depreciated value of the replacement cost of the improvements. This inherently componentized approach has been deemphasized over time in favor of two other valuation approaches. These are the market value or *sales comparison approach*, which is used almost exclusively in valuing single-family residential property, and the *income approach*, which is used in valuing income-producing commercial or industrial property. As generally applied, neither of these approaches requires or produces a separate land value; instead, each yields parcel values that combine land and improvements values.

The cost approach is used exclusively for improvements and typically when the sales or income approaches are unavailable. The premise of the cost approach is based upon the principal of substitution – the market value of an improved property can be estimated based on the sum of the land value and the depreciated value of improvements. [Eckert, 1990, Chapter 8] That is, the property is assumed to be worth no more than the cost to replace it plus the value of the land. The assessor first determines the replacement cost for the structure(s) on the subject property that is being appraised. The next step is to consider depreciation, or the loss in value of the improvements. There are generally three causes of depreciation – physical deterioration, functional obsolescence and economic obsolescence. Specifically, according to Eckert

- Physical deterioration is the loss in value of the improvements because of wear and tear and the forces of nature.
- Functional obsolescence is the loss in value of improvements because of the inability of the structure to perform adequately the functions for which it is used which typically results from changes in design and technology which reduce the utility of the structure.
- Economic obsolescence is the loss in value of improvements that result from factors outside the property's boundaries, e.g., changes in the highest and best use of a property due to market shifts or such things as inadequate public services, lack of parking facilities, narrow streets, or proximity to inharmonious industrial or commercial land uses. [pp. 220-21]

Two types of adjustment are necessary when using the depreciated cost approach. One is to adjust the cost approach for differences in the cost of materials from one area to another. For example, the cost of a 2x4 may be higher in one area than another. Using a standard cost table for all areas may miss this type of difference, so assessors may adjust the cost coefficients to reflect the market for supplies in different neighborhoods or different jurisdictions.

A second type of adjustment is needed when the contribution value of various characteristics of a house vary because the houses, while identical in structure, are located in different market areas. The market value of two houses will be different, even though they are identical structures with identical replacement costs, if one house is in a neighborhood undergoing gentrification and the other is in a neighborhood in decline.

After a depreciated improvement value has been determined, the land value is added to give a total estimate of market value for the property being appraised. Determining land value separate from improvement value can be difficult. For vacant land, the most desirable approach is to value land based on sales comparison. This approach is grounded in the notion that land parcels of similar utility are substitutes for one another and will result in similar sales prices in a competitive marketplace. Market transactions for vacant land are used to value other land parcels with appropriate adjustments for size, shape, corner influence, location, and topography (Eckert 1990, 190–195).

In developed urban areas, however, the problem is that there may be insufficient vacant land sales to use the sales comparison approach to valuation. Bell and Bowman examine three alternative approaches to valuing land when there are insufficient vacant land sales; all depend on the principle of substitution, but apply it in a different manner. Specifically, they examine

- ❖ Abstraction, or extraction, method of valuing land, which is the most common approach to valuing land for tax purposes in urban areas with

insufficient vacant land sales. This technique starts with the market value of an entire property that actually sold and subtracts the depreciated cost of replacing the improvements, attributing the residual to land.

- ❖ Allocation method of valuing land when there is few land sales attributes, or allocates, a percentage of total improved parcel value to land. The land percentage is derived from market evidence and applied to individual parcels. This approach assumes that if land typically accounts for 25 percent of total value, for example, then 25 percent is the likely land share of total value for a particular property.
- ❖ Contribution method of valuation assumes that the market value of land can be estimated more accurately by considering how much each characteristic of site and improvements contribute to the market value of the particular parcel. The principle of contribution applies to the parts, or attributes, of a property to determine the contribution of each part to the total value. Total value may not equal total replacement cost of the individual parts. [Bell and Bowman, 2006 and 2007]

After reviewing experiences with all methods of valuing land for tax purposes, Bell and Bowman conclude that the contribution principle of value seems more consistent with the notion of market value than either the abstraction or allocation principles. There are adequate analytic tools available to estimate with reasonable accuracy independent land and improvements values. [Bell and Bowman, 2006 and 2007]

### ***Sales Comparison Approach***

Most states define market value as the standard for assessments. The sales comparison approach to valuation is generally regarded as the preferred approach for assessments when sales data are available. [Eckert, 1990, Chapter 6] The sales comparison approach values each parcel as a single entity – land and improvements are not typically valued separately under the sales comparison approach as they are under the cost approach.

The sales comparison approach bases valuation of the subject property on the sales of similarly situated properties. It is traditionally used for owner occupied (residential) properties. Comparable sales data can be found through a variety of sources including the appraisal district, real estate appraisers, brokers and third party vendors. Appraisers will make adjustments for differences between the subject property and comparable properties. For example, if a comparable sale has four bedrooms and the subject home has three bedrooms, the appraiser will make a downward adjustment to the sales price to the comparable sale. Comparable sales data are given strong consideration in property tax hearings for houses, land and owner-occupied commercial buildings.

Often, assessors use computer assisted mass appraisal models to estimate the value of properties that have not sold. These CAMA models are generally calibrated with information from properties that have sold. Once the model is calibrated it is used to

estimate the value of properties that have not sold based on their attributes. Specifically, there are several steps in developing and applying such models to the valuation of properties that have not sold including:

- Selecting property attributes that impact value – this is the model specification;
- Collecting data for properties that actually sold for all the relevant attributes included in the model;
- Calibrating the model using the data from actual sales; and
- Applying the model to unsold properties to estimate their selling price based on their attributes and the value of those attributes as determined by the model.

### ***Income Approach***

The income approach is typically used for income properties. The basic theory is that investors purchase income properties for the income stream they produce. This income stream can be converted to an indication of market value for the property. The primary steps in the income approach are to estimate the potential gross income using rent comparables and information regarding actual income at the subject property. An allowance for vacancy is estimated based on the performance of the subject property and average vacancy in the area. Operating expenses are estimated using actual expenses at the subject property and market expenses for similar properties. The net operating income (NOI) is calculated by deducting vacancy and operating expenses from the potential gross income. Net operating income is converted to an indication of market value by dividing it by an appropriate capitalization rate.

Determining the appropriate capitalization rate, however, can be a challenge. For example, the capitalization rate reflects the quality of the stream of income for a particular property, i.e., the risk associated with the stream of income. Direct capitalization is based on estimates of an overall capitalization rate which is estimated by dividing net operating income of a property that actually sold by its sales price. [Eckert, 1990, Chapter 12] Estimating the capitalization rate is often the most controversial part of implementing an income approach to valuation.

### ***Preferential Assessments<sup>2</sup>***

Assessments are typically done at the local level. Assessors at the local level generally have discretion over which valuation approach is applied to which type of property. Generally, the sales comparison approach is applied to residential properties and the income approach is applied to commercial and industrial properties.

Some properties, however, are not valued according to these traditional approaches because they are accorded preferential assessments. States use a variety of

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<sup>2</sup> This section draws on material in Bowman, Cordes and Metcalf.

methodologies for valuing properties for tax purposes when those properties receive preferential assessments. These methodologies can be grouped under the following general headings:

- *Income productivity of the land.* This is the most common type of valuation. The formula or guidelines devised by the state considers the productivity of the land. This is the case if a fixed dollar value is differentiated according to crop, soils present on the land, yields, or other site characteristics that influence the actual or potential productivity of the land. It may or may not refer to "income" productivity, but the valuation of the land is tied to how much of whatever resource it can produce, and the state must determine the capitalization method for the way income productivity will be measured. Income productivity is used to value land for preferential assessment programs in 35 states.<sup>3</sup>
- *Assessment ratio.* This method values agricultural land as a flat or fixed percentage of fair market value (or some other taxable value). Assessment ratios are used to value land for preferential assessment programs in 13 states.<sup>4</sup>
- *Fixed dollar value or percentage of default (or baseline) valuation.* This methodology entails assigning a specific dollar value per acre or unit, or a fixed percentage of market or other value in order to calculate preferential assessment. Fixed dollar value or baseline is used to value land for preferential assessment programs in 10 states.<sup>5</sup>
- *Exemptions/Easements.* These methods of determining relief include full or partial exemptions from property tax and permanent property tax relief for easements (contractually an agreement to retain the property for agricultural use). Exemptions or easements are used to value land for preferential assessment programs in 5 states.<sup>6</sup>
- *Other formula devised by the state.* The state establishes a formula to be applied to land in the target use that is to be applied to all such land in the state. This can include classifications established by the state, as for land growing certain types of wood or crops, or differentiation by geography - as long as the formula is set by the state. The alternative is for local property assessors to devise their own

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3 Alabama, Arkansas, Arizona, California, Delaware, Florida, Iowa, Illinois, Indiana, Kansas, Kentucky, Massachusetts, Maryland, Maine, Minnesota, Missouri, Mississippi, Montana, North Carolina, New Hampshire, New Jersey, New Mexico, Nevada, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Virginia, Washington, Wisconsin, and West Virginia

4 Alabama, Delaware, Georgia, Illinois, Louisiana, North Dakota, Nebraska, New York, Oregon, South Carolina, South Dakota, Texas, and Wisconsin

5 Idaho, Indiana, Maine, Minnesota, Missouri, Nevada, Oregon, Utah, Vermont, and Washington

6 Delaware, Idaho, Indiana, Minnesota, and New York

method.<sup>7</sup> Some other formula devised by the state is used for preferential assessment programs in 12 states.<sup>8</sup>

### **Valuing Commercial and Industrial Property for Tax Purposes**

GWIPP undertook a comprehensive review of statutory and regulatory requirements regarding valuation of commercial and industrial properties for tax purposes in all fifty states and the District of Columbia to identify those states that mandate the use of the income approach to valuing commercial and/or industrial properties. In each state, GWIPP examined the laws and regulations in effect as of June 30, 2008. The GWIPP research team looked specifically at whether the states and District of Columbia required or otherwise legally mandated a specific valuation methodology for industrial or commercial property.

GWIPP has been unable to identify any states that *mandate* the use of the income or a productive earnings capacity approach for purposes of valuing commercial or industrial property. Indeed, GWIPP has been unable to identify any states that mandate any specific valuation methods for commercial or industrial property.

Some state statutes do require appraisers to "consider" one or more of the methodologies in valuing property. For example, Texas in Sec. 23.0101 of the Property Tax Code states:

“In determining the market value of property, the chief appraiser shall consider the cost, income, and market data comparison methods of appraisal and use the most appropriate method.”

But the notes and legislative history of the Texas statute reiterates that no one method is required.

The comparable sales, cost and income methods of valuation are not necessarily the exclusive methods of determining market value. The trial court did not err by blending the income and comparable sales approaches, so long as the appraisal method as a whole constituted relevant and reliable evidence of market value. [Houston R.E. Income Properties XV, Ltd. v. Waller County Appraisal District, 123 S.W.3d 859 (Tex. App.-Houston [1st Dist.] 2003, no pet. h.)

In Louisiana, the statutes mandate "In making appraisals of commercial, industrial, and residential land and improvements, the assessors shall use the three nationally recognized approaches to value, those being cost, income and market, where each is applicable." LA Code Ann, sec. 303.

While the states do not legally require specific valuation methods for industrial or commercial property, they often formally or informally encourage particular methods.

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<sup>7</sup> For a fuller discussion of preferential assessments see Connolly, Metcalf, Bell, Brunori and Collins.

<sup>8</sup> Connecticut, Hawaii, Massachusetts, Minnesota, North Dakota, Nevada, New York, Oregon, Rhode Island, Tennessee, Washington, and Wyoming

For example, The Washington State Board of Tax Appeals notes that income capitalization or sales comparison approaches are usually given more weight than a cost approach for commercial properties. The board says that income capitalization approach should be based upon market conditions. Income and expenses of the property under appeal may also be used. Income, expenses, and capitalization rates must be verifiable and supported. At the same time, the board urges property owners, including commercial property owners, with new construction to use the cost approach to determine the value of the improvements and the sales comparison approach to determine the value of the land. The Washington Board of Tax Appeals approach is consistent with generally accepted practices throughout the United States.

GWIPP conducted a survey of assessors in 10 states to determine how they approach valuing commercial and industrial property. In every case, the assessors indicated they have used all three valuation methods for industrial and commercial property. Each indicated however, that for rental and retail property, the income approach produced the most accurate valuations, assuming that market rental and income information was available. Each also indicated a preference for the cost approach for new construction. But each also indicated that they used the sales approach where sales of comparable industrial and commercial property were discernable.

While there are no legislative requirements to use one specific approach to value commercial and industrial properties for tax purposes, there are patterns that emerge in actual practice, and these patterns vary across states. According to a seminal survey by the International Association of Assessing Officers (IAAO) in 1999, assessors typically used all three valuation techniques for commercial and industrial property, presumably based on the particular circumstances. Specifically, one of the questions in the survey asked respondents to indicate which of the three approaches to valuation is most commonly used in the valuation of the specific types of properties, including commercial and industrial properties. The survey reports information for 50 states and the District of Columbia. Of these 51 jurisdictions, 11 did not respond to this question. Of the 40 jurisdictions for which we have responses, 25 said they use all three approaches to value commercial property and 26 said they use all three approaches to value industrial properties. Three states said they rely on the sales approach to value commercial property; while one state used this approach to value industrial properties. Four states indicated they use the income approach to value commercial properties; while no states said they use just the income approach to value industrial properties. Eleven states indicate that they relied primarily on the cost approach to value commercial properties and thirteen states said they rely on the cost approach to value industrial properties.<sup>9</sup>

Another question in the IAAO survey asked if the state provides depreciation schedules for various types of property, and, if they do, is the use of these state provided depreciation tables mandatory? The report includes responses from all 50 states and the District of Columbia. Of these 51 jurisdictions, 13 indicate that they do provide depreciation schedules for commercial properties to local assessors and 5 mandate their

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<sup>9</sup> For commercial properties the total is more than the 40 states reporting because some states use more than one, but not all three, approaches to value.

use when valuing commercial property for tax purposes. Eleven states provide such schedules to local assessors for industrial property and 4 mandate their use.

Finally, the IAAO survey asked whether or not a state determined capitalization rate was used to value any type of property. The study reports information for 50 states and the District of Columbia. Of these 51 jurisdictions, 10 did not provide a response to this question. Of the remaining 41 jurisdictions, 22 said that the state does provide such calculated capitalization rates to local assessors, and 19 said they do not.

### **Highest and Best Use versus Current Use**

We have been asked to comment on the concept of highest and best use as a guide for valuing property for tax purposes. In Iowa, commercial property is generally valued under current use standards, rather than highest and best use. We were told that in rural or suburban areas commercial properties are valued by the cost approach and in urban areas the income approach is used. Generally, current use values property based on the owner's use of the property. This can be significantly lower than the market value of the property depending on the dynamics of the local commercial real property market. At least one Iowa court has upheld the highest and best use for purposes of valuation, but current use seems to take precedence in the state. Indeed, the Iowa Department of Revenue director's ruling in *Polk v Department of Revenue* (07-60—9-0066) specifically states that property is to be taxed on current use and not on highest and best use.

Nationally, 39 states value property under the highest and best use standard. Many of these states, however, authorize this standard in only limited circumstances or for particular types of property. For example, 20 states require the highest and best use standard for all property except for agriculture, timber, or historic properties. All six of Iowa's neighboring states use the highest and best use standard in some circumstances. For example, all six states use highest and best use for all property except agricultural land.

### **Conclusion**

Our research indicates that there are no legal requirements for using a particular type of valuation methodology for industrial or commercial property. Indeed, the industry standards indicate that all three methodologies can and are used depending on the circumstances.

As the Vermont Department of Taxation noted in its Handbook on Property Taxation, "There are no hard and fast rules regarding the three approaches." That seems to sum up the use of the cost, income, and sales approaches nationwide. All three are used depending on the circumstances and the states do not require or prohibit their application.

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# **Chapter 2**

## **Section A.6**

### **Indirect Property Tax Relief: Trends and Successes**

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## **Introduction**

The purpose of this research note is to identify and review successful efforts by other states to lessen the local property tax burden through a mix of providing state support to local governments and authorizing user fees as an alternative source of local own-source revenue and evaluate possible utilization of such efforts in Iowa in light of its state and local fiscal capacity.

As we approach this task we emphasize two important points. First, any state action which reduces the pressure on the local property tax can, in the most general sense, be considered property tax relief. Second, a distinction must be made between direct relief and indirect relief.

Direct property tax relief is a broad concept encompassing any action which reduces individual property tax bills. Such action could include imposing assessment caps as some 20 states and the District of Columbia have done. Direct property relief also includes property tax rate limits (sometimes used in conjunction with assessment limit). Other direct relief measures include valuing farmland, and forest land, at use value rather than market value, or providing relief for historic preservation, or the more familiar circuit breaker or exemption programs available in many state. Many of these are discussed in a forthcoming book from the Lincoln Institute of Land Policy -- *Erosion of the Local Property Tax Base: Trends, Causes, and Consequences*.

Indirect property tax relief does not work through the property tax system itself, hence the characterization as indirect relief. Indirect relief encompasses initiatives to reduce the reliance on local property taxes by substituting other revenues for local property taxes. The focus of this research note is on the role of indirect property tax relief efforts to take pressure off of the local property tax.

## **Indirect Property Tax Relief**

There are many policies that can reduce pressure on the local property tax. One option is simply to eliminate the provision of certain goods and services provided by local government. An example might be the effort in Iowa to eliminate certain rural roads from the state's transportation network because they primarily served as driveways to individual farms (see Iowa State University, 1986). Other policies could involve the state performing certain functions that were previously the responsibility of local governments. In this research note we focus on efforts to reduce reliance on local property taxes by making other revenue sources available to local government, specifically, increased state aid and increased reliance on user charges.

The next two sections review arguments for increased reliance of local governments on state aid and current charges, and some limitations associated with each type of indirect property tax relief. Those sections are followed by a discussion of the trends in reliance on state aid and property taxes which is followed by a more detailed discussion of specific examples of indirect property tax relief through increased state aid. The next section discusses the trends in reliance on user charges and property taxes across states, which is followed by a discussion of some

unintended consequences of indirect property tax relief. The last section discusses some implications of these trends for Iowa in light of state and local fiscal capacity in the state.

## **Policy Issues Presented by Intergovernmental Aid to Local Jurisdictions**

### ***Policy Justifications for Intergovernmental Aid***

State aid to local governments serves several purposes. First, such aid ameliorates the burdens placed on local governments forced to deal with limitations on their ability to raise own source revenue. Property tax limitations, along with inherent limitations on the ability to collect other types of taxes, put pressure on local governments to find revenue to fund basic services. State government aid allows local governments to keep operating despite the varied limitations on their taxing authority. Many, indeed most, of the tax limitations have been imposed by state law, and intergovernmental aid can be considered a method for compensating local governments for lost revenue.

In this regard, state aid is recognition that local governments are incapable of funding government service through their own tax systems at least as they are now structured. The public's demands for services exceed the local governments' means of paying for such services. Local government inability to cover the costs of services is tied directly to the limitations placed on the property tax, particularly rate and assessment limitations. But such limitations are, at least in the foreseeable future, a legal and political reality.

Another justification for the use of intergovernmental aid is the fact that many services provided by local governments benefit residents beyond their borders. Large cities, for example, provide services that benefit commuters, tourists, and other non-residents. The residents of local governments are forced to pay for the services provided to non-residents. Some local governments have the means of collecting taxes from non-residents (through payroll, sales, and property taxes). But these tax sources, when available, are often inadequate to cover the marginal costs of providing the services to non-residents. In such instances, state aid compensates local governments for the costs of providing benefits to people and business outside their jurisdiction.

### ***Problems with Intergovernmental Aid***

#### **a. Unreliability**

Perhaps the single largest practical problem with the increased reliance on intergovernmental aid is that such aid is difficult to predict. State governments have been forced to increase aid to local governments during property tax revolts and as part of school funding equalization. But in virtually every state, there are no minimum funding requirements. And there are few guarantees that funding will even continue. Intergovernmental aid is appropriated at the discretion of the state legislature. The monies to be handed over to the local governments are not determined by or in the control of the people on whose behalf they will purportedly be spent.

The inability of local governments to predict state aid poses particular problems during times of economic downturn (Brunori 2007). When states face serious budget crisis, as they did in the early 1980s, early 1990s, and 2001-2002, and as they do now, one of the first expenditure reductions made is aid to local governments (Sokolow 1998). In fact, during the 2001-2002 state budget crises, 32 states reduced aid to local governments in an estimated, aggregate amount of \$15 billion dollars. In 2002, for example, North Carolina reduced direct aid to its local governments by \$330 million. The decision to reduce aid to North Carolina cities and counties was a direct result of the state's budget deficit which reached \$1 billion dollars in that year. The budget cuts caused local governments to ask the North Carolina legislature for authority to impose a variety of new taxes and fees including an additional half-cent increase in the local option sales tax.

But the problem of relying on the legislature for funding is not limited to times of recession. When states are running large budget surpluses, as was the norm during the mid and late 1990s, legislators are more apt to cut taxes or increase state spending rather than increase intergovernmental aid. There are more political benefits to be gained from cutting taxes or financing state projects than for increasing local government aid. Mayors, city managers, county executives will incur the wrath of residents if public services are not adequately provided because of a lack of funding. And those same political leaders will reap the benefits if the citizenry is satisfied with the mix of services and taxes. State legislators, however, have little to gain from insuring that local government aid is maintained at levels deemed acceptable to local residents. State legislators may and often do direct funds to other public services, despite the need of the local governments.

Ironically, one of the most significant problems with relying on state aid is that local government finance becomes dependent on the fortunes of the state budget. This is a particular problem when states face budget deficits. During times of recession, state tax revenue declines, often precipitously. State political leaders are faced with essentially three policy choices: raise additional tax revenue, cut public services, or a combination of tax increases and service reductions.

As a result, local governments are often forced to lobby for additional resources. State associations of municipalities and counties routinely take their case to the legislature arguing for more funding. The problem for the cities and counties, however, is that many other organizations and interests are lobbying for more support as well. As Sokolow (2000, 104) noted, "In a centralized fiscal environment, local governments are merely another set of competitors for scarce state budget dollars."

But intergovernmental aid that is distributed by the grace of effective lobbying efforts is not necessarily the most efficient way of financing government. Local governments will lobby for as much revenue as possible. And they will lobby for revenue despite their need (Berman 2000). They will lobby for aid to pay for non-essential projects rather than see state money spent in neighboring jurisdictions (Levine and Posner 1981). Moreover, once the local government begins receiving intergovernmental aid for specific programs, it is in their interest to protect these programs, and their state aid, even at the expense of other locally funded programs (Levine and Posner 1981).

More significantly, increased state aid must be paid for with additional state revenue. Increased state aid is accompanied by increased state tax burdens (Sokolow 1998). The connection between state aid and state tax burdens is little understood by the public or seemingly even political leaders. Residents certainly appreciate lower local tax burdens. But they may not realize that their state tax burdens have increased as a result of maintaining a satisfactory level of local public services.

State aid places local governments in a peculiar, at times difficult position. No local public leader will turn down funding from the state. This is especially true during times of economic downturn, when most local governments struggle to find revenue. Indeed there is evidence that after the tax revolts local politicians preferred to ask for more aid than to ask for increased taxing power (Sokolow 1998). At the same time, increased state aid has its drawbacks, a fact widely recognized by local political leaders.

### **b. Less Autonomy**

When states grant funding to, or assume financing, of services traditionally performed by local governments, local governments lose a measure of autonomy. Funding from higher levels of government inevitably comes with "strings attached." State legislators appropriating revenue rationally take an interest in how the money will be spent. And there is an abundance of research showing that states routinely impose restrictions on how the money will be spent (see e.g., Nice and Fredericksen 1998, 156 and references therein). The state legislatures inevitably exert expanded influence over traditionally local matters. There is little doubt that intergovernmental aid results in a loss of political autonomy by the recipient of such aid.

### **c. Efficiency**

Intergovernmental aid not only diminishes political autonomy, but there is a loss of economic efficiency as well. Centralization clearly reduces the economic benefits of intergovernmental competition (Holcombe 1998). As Oates (1979) noted intergovernmental aid leads to fiscal illusions. The recipients of local public services do not realize their true costs. As a result demand for such services increases which in turn produces a greater than optimal public sector (Oates 1979).

The level of funding and the conditions placed upon that funding may result in public services that do not match the preferences of the people who live in the locality. State funding may result in under provision of desired services and it may result in over provision of such services. In either case, the government would not be providing services as efficiently or effectively as possible.

As the National Conference of State Legislators (1997, 5) noted in an influential report:

The primary disadvantage of centralization is loss of local control and accountability. Especially in geographically large states -- which can encompass politically diverse urban, suburban, and rural areas -- centralization increases the likelihood that some residents will be taxed for services they do not want or need. Proponents of

decentralization argue that local residents are best suited to decide the service and tax levels that suit their needs.

### ***Consequences for Local Tax Policy***

The rise and dominance of state intergovernmental aid has had a serious effect on local tax autonomy. The very existence of state aid has placed a political constraint on local taxing power. If state aid is held out as a means of financing government services, it is difficult to muster public or political support for local taxes. Even if fundamental public services are in need of additional revenue, there will be a tendency on the part of local political leaders to look to the state rather than own source revenue. The existence of state aid reinforces the logic for a politician to look for state aid to fund public services rather than take the politically risky option of advocating greater tax burdens on his or her constituents.

In the end, there is little doubt that intergovernmental aid further reduces that ability of local governments to raise tax revenue. The inability to raise sufficient tax revenue has the ironic effect of forcing local governments to rely even more heavily on intergovernmental aid.

### **Policy Issues Presented by User Fees and Charges**

#### ***Policy Reasons for Imposing Charges***

User fees and charges are, along with the property tax, widely regarded as an effective means of raising local revenue. User fees and charges do not present many of the same problems as taxes. They have limited effects on redistribution of wealth and distortion of the markets. For these reasons, leading economists and public finance experts have long sanctioned, indeed encouraged, their use (see e.g., Wassmer 1998, Downing 1999, Break 1993, Bird 1993; Oates 1993; McKinnon and Nechyba 1997, and Gramlich 1993).

#### **a. Economic Efficiency**

The primary justification for user fees and charges is that they are among the most efficient means of financing local government services (Wassmer 1998, Downing 1999, Bland 1997). Benefit taxes are an efficient and effective way of paying for local public services. User fees and charges are often considered the truest form of benefits tax. Indeed, from an economic efficiency standpoint, user fees and charges "take the benefits received theory of taxation to its logical conclusion" (Bierhanzl and Downing 1998, 75). Only those who use the public service pay the fee or charge. Those who prefer not to receive the particular service do not incur additional costs (Batt 1993).

User fees allow local governments to avoid oversupply of services and the unnecessary expansion of the public sector. Moreover, user fees and charges reduce the occurrence of tax exporting and fiscal illusion that causes over demand for public services (Bierhanzl and Downing 1998). Indeed, user fees are virtually impossible to export to non-beneficiaries of the services provided<sup>1</sup>.

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<sup>1</sup> While difficult to export, many fees are often "hidden" from those who bear their economic burden. This is particularly true with respect to development fees, which are passed on to homeowners in the form of higher housing costs.

User fees and charges are also attractive because they may reduce the level of migration of firms and individuals. User fees should reflect the true marginal cost of public services. If individuals and firms are receiving the public services they desire for a cost they are willing to pay, there is less incentive for them to search for a more optimal service/tax mix. This is a clear advantage of using charges as opposed to virtually any type of general tax.

For this reason, a local finance system based on user fees has long been considered ideal from an efficiency standpoint. The economic efficiencies and their political alluring ability to control some portion of their tax burden, has translated into broad support for user fees and charges. The public generally favors user fees and charges. And public acceptance in turn insures the support of political leaders as well.

### **b. Diversification of Revenue Sources**

With property taxes under intense pressure, user fees and charges allow local governments to diversify their revenue base. Sound tax systems are built on a diverse base, which provides a measure of stability.

State and local finance systems have traditionally relied upon income, sales, and property taxes to fund government, a mix thought to insure stability. In light of the limitations on other tax sources, the user fee has come to play a major role in both the state and local public finance systems.

### **c. Local Control**

User fees and charges allow local governments to retain a measure of control over their finances. User fees and charges are generally not subject to the legal limitations imposed on other taxes. Local governments generally do not require legislative approval to impose fees and charges. While there are political and market limitations, user fees and charges have helped local governments weather the property tax revolts with some semblance of autonomy.

### ***Problems with Imposing Charges***

Despite their widespread public acceptance and near universal scholarly support, user fees and charges pose distinct policy problems for local governments.

### **a. Limitations on Revenue Growth**

User fee revenue can increase in one of three ways. First, local governments can raise the nominal rates charged for the particular service. For example, rather than charging \$5 for access to the public pool, the city or county can charge \$6 for admittance. Second, user fee revenue will grow if more citizens use and pay for the underlying public services -- assuming that the marginal costs of providing that service do not increase. An upsurge in people using the public pool would, all things being equal, bring in more net revenue. And finally, local governments can theoretically increase the number of public services for which fees can be charged. None of these options are easily available to most local governments.

Local governments cannot raise the price of public services at will. User fees and charges are efficient revenue sources because they reflect the benefit tax principle -- the citizen pays when receiving something of value in return. User fees that exceed the marginal cost of local public services violate this principle. It will also cause fewer people to pay for the services being provided.

There is a limitation on the amount that governments can charge for a particular public service (Batt 1993). At some level, citizens will refrain from using the public service for which fees are charged. This is especially true, when there are viable alternatives to the desired government service. Because localities cannot impose charges at rates beyond what a person or business would pay, there is an inherent market limitation on the amount of revenue that can be raised.<sup>2</sup>

It is unlikely that local governments can count on increased usage of the public services subject to user fees and charges. There are practical limitations on the number of citizens who can access public services at any one time. Moreover, increased usage will likely increase the costs of providing the services.

Finally, the base upon which fees and charges can be levied generally cannot grow substantially. Local governments cannot realistically charge fees for services that are widely available, such as education, transportation infrastructure, and police and fire protection. This limitation is not unique to local government fees, but is inherent in fees charged by all entities. If access to the public service cannot be controlled, it is difficult if not impossible to charge for that service. The problem is that there are few public services left that can be subject to discrete fees. Over the preceding decades, local governments, especially those in states with significant property tax limitations, have imposed fees on just about everything that they can. There are simply few public services left on which a fee or charge can be imposed.

### **b. Fairness Concerns**

There is a concern with respect to the fairness of using fees and charges to fund public services. Virtually everyone agrees that there are some services for which it would be patently unfair to charge fees (see e.g., Batt 1993). For example, fundamental services such as police, fire protection and other public safety services, are deemed to be necessities which should not be imposed on an ability to pay basis.

This, of course, is related to the regressivity of user fees and charges in general. Scholars and public finance practitioners have long asserted that -- despite their other attributes -- user fees and charges are decidedly regressive. That is, people with lower incomes pay a higher percentage of their income in fees and charges than people with higher incomes. The regressivity of this form of public finance has been emphasized more regularly in recent years (see e.g., Brunori 2007).

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<sup>2</sup> While local governments cannot charge prices beyond what the market will bear, there is evidence that some types of charges are set below fair market value (Bland 1997). Consistent with market theory, local governments can and should periodically reevaluate the prices charged for particular services.

A final point of fairness has to do with the ability of low income people to purchase local goods and services financed by charges. Money is the way people “vote” in the market place for those goods and services they desire. However, if a family has limited income, they are restricted in the preferences they can reveal through market transactions. If a family is struggling to pay for health care, gasoline, food, and utilities, they may not have sufficient resources to pay the admissions fee to a park or swimming pool in the summer. The fact they do not purchase such services does not mean they do not want such services. Thus, to the extent there are low income families in a community funding local goods and services through charges may not send accurate signals to the local government regarding the goods and services demanded by citizens.

### **c. Conceptual Issues**

As discussed above, user charges are generally thought to be consistent with the benefits-received principle of taxation. However, at times there is a disconnect between the user charges implemented and the beneficiaries of a program. This situation results when beneficiaries include taxpayers who may not be actual users of a service. For example, the Bay Area Rapid Transit system in the San Francisco Bay Area is funded by fees paid by riders, who are clear beneficiaries and actual users of the service; and a half-cent sales tax applied in the transit district. The argument is that as transportation costs are reduced, businesses benefit from the mass transit system by having a larger market area and by having a larger area from which to recruit employees. Businesses benefit from the mass transit system, even though they may not use the services provided. Care must be taken to make sure that the charges put in place actually capture the benefits from a service – benefits that accrue to users as well as non-users.

Finally, charges are used for the funding of services where there is an identifiable user, whom you can charge a fee, and whom you can prevent from benefiting from the service if she does not pay the fee. But many goods and services provided by local governments do not have these exclusionary features, or the cost of exclusion is prohibitive. A network of local roads is one such example. When the good or service provided by local government exhibits “public good” characteristics of non-excludability, charges are not an efficient means of financing that service.

#### ***Outlook for User fees***

Public finance experts are virtually unanimous in their belief that user fees are an efficient means of financing many local government services (see e.g., Wassmer 1998). While user fees and charges will remain an important part of local government finance, the significant increases in user fees and charges is unlikely to continue.<sup>3</sup> Indeed, there are reasons to believe that the revenue from charges and fees will begin to decline as market forces and political pressures combine to limit fees and charges. Most significantly, however, is that there are only so many services for which fees can be charged. And most local governments have identified virtually all available services. Since the base cannot be expanded to a significant extent, revenue will grow only from increased use of services subject to fees or by increasing rates.

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<sup>3</sup> Downing (1992) has argued that there is a great potential for further expansion of the role of user fees in local public finance. He argued that a doubling of user fee revenue could be expected if all local governments adopted charges at the same level of the most charging governments. But, since that study in 1992, local governments have already doubled their use of fees and charges.

There is little likelihood that either will occur. For that reason many observers have concluded that local governments may have maximized revenues from user fee and charges (National Conference of State Legislatures 1997).

### **Trends in Reliance on State Aid and Property Taxes**

In order to examine the extent to which local governments across the country rely on state aid or property taxes as a source of local general revenues we review data from the Census Bureau. We report information on general revenues because they pertain to the general government sector. General revenues include intergovernmental revenues and own-source revenues which are composed of taxes, current charges and miscellaneous general revenues. Not included in these numbers are utility revenues, liquor store revenues and social insurance trust revenues. Nationally, local general revenues account for nearly 90 percent of total local revenues. Of those local revenues not included in general revenue, two thirds are from utilities (primarily electrical and water) and one third is revenue from employee retirement insurance trusts. We look at the relative reliance of local governments on state aid and property taxes in 1992 and 2006, and how that dependence changed over that period.

Appendix Table 1 reports the reliance of local governments on intergovernmental aid from state governments and property taxes in 1992 and 2006. For the nation as a whole, local governments received 34.2 percent of their general revenues from state governments in 1992. This share declined marginally to 33.9 percent in 2006. In 1992, ten states provided 40 percent or more of local general revenues through intergovernmental grants.<sup>4</sup> Only four states provided intergovernmental grants to local governments that accounted for less than 25 percent of general revenues – Hawaii, New Hampshire, Rhode Island, and South Dakota.

In 2006, ten states provided 40 percent or more of local general revenues, albeit the list of ten states is somewhat different then it was in 1992.<sup>5</sup> Again, four states provided less than 25 percent of local general revenues through intergovernmental assistance – Colorado, Florida, Hawaii, and Texas.

While such national comparisons are interesting, it may be more relevant to look at the situation in Iowa and a subset of states that are perceived as being in circumstances similar to Iowa.<sup>6</sup> In 1992, Iowa local governments received 33.8 percent of their general revenues from state aid – slightly less than the average for the nation as a whole. In 2006, the share of general revenues from state aid declined in the state to 32.7 percent – still slightly below the national average.

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<sup>4</sup> Arkansas, California, Delaware, Idaho, Kentucky, New Mexico, North Carolina, Washington, West Virginia and Wisconsin.

<sup>5</sup> Arkansas, California, Delaware, Michigan, Minnesota, Mississippi, New Mexico, Vermont, West Virginia and Wisconsin.

<sup>6</sup> We define a set of states that are similarly situated to Iowa to include the six states that neighbor Iowa (Illinois, Minnesota, Missouri, Nebraska, South Dakota and Wisconsin) and states that have similar economic characteristics as Iowa and depend relatively heavily on farming and manufacturing as contributors to their Gross State Domestic Product (Arkansas, Idaho, Kansas, Kentucky, North Carolina and North Dakota).

Table 1  
Intergovernmental Revenues and Property Taxes  
as a Share of Local General Revenues,  
1992 and 2006  
For  
States Similarly Situated with Iowa

	State Grants as a Share of Local General Revenues		Property Taxes as a Share of Local General Revenues	
	1992	2006	1992	2006
<b>United States</b>	34.2%	33.9%	29.9%	27.9%
<b>Arkansas</b>	43.2	51.8	19.9	10.2
<b>Idaho</b>	42.0	35.7	26.7	27.5
<b>Illinois*</b>	27.8	27.8	38.8	36.3
<b>Iowa</b>	33.8	32.7	35.2	30.8
<b>Kansas</b>	27.0	33.3	37.0	30.7
<b>Kentucky</b>	42.7	39.3	14.7	18.5
<b>Minnesota*</b>	38.3	45.7	28.2	21.5
<b>Missouri*</b>	30.9	28.9	24.8	26.5
<b>Nebraska*</b>	27.3	26.0	37.6	33.5
<b>North Carolina</b>	41.2	37.9	21.4	22.8
<b>North Dakota</b>	35.5	33.9	31.8	32.2
<b>South Dakota*</b>	22.7	25.8	40.8	34.9
<b>Wisconsin*</b>	43.1	42.5	34.8	35.5

**\*States contiguous with Iowa.**

Of the twelve states we have defined as being in situations similar to Iowa, seven had a greater dependence on state aid in 1992 than local governments nationally or in Iowa and the same seven had greater dependence on state aid in 2006 than local governments in Iowa. While dependence on state aid decreased for local governments nationally and in Iowa from 1992 to 2006, local governments in four of the similarly situated states increased their reliance on state grants as a source of local general revenues between 1992 and 2006 (Arkansas, Kansas, Minnesota and South Dakota).

To answer the question posed here (To what extent do states reduce pressure on the property tax by substituting state aid for property taxes?) we need to look at trends across all states in their reliance on state aid and property taxes. The last column in Appendix Table 1 reports the change in the property tax share of local general revenues between 1992 and 2006 by state. Nationally, property taxes fell modestly from 29.9 percent of local general revenues in 1992 to 27.9 percent in 2006. Twenty-one states saw local governments become more dependent on property taxes as a source of general revenues with the remainder seeing declines in the relative importance of the property tax.

Local governments in Iowa relied on property taxes for 35.2 percent of local general revenues in 1992 (nearly 18 percent above the national average), but that share fell to 30.8

percent in 2006 (just over 10 percent above the national average). The relative importance of property taxes in local general revenues fell faster in Iowa than the nation as a whole from 1992 to 2006.

For our twelve similarly situated states the story is again mixed. Six of these states had local governments less dependent on local property taxes than local governments nationally or in Iowa in both 1992 and 2006. Bucking the national trend of reduced reliance on property taxes, local governments in five of the similarly situated states increased their reliance on property taxes between 1992 and 2006 (Idaho, Kentucky, Missouri, North Carolina, and North Dakota).

Nationally, local governments that relied more heavily on the property tax as a source of general revenues in 1992 tended to still rely heavily on the property tax as a source of general revenue in 2006 – the correlation coefficient between the share of local general revenues coming from the property tax in 1992 and the share in 2006 was .821. More interesting, perhaps, is the fact that those states where the relative reliance on the property tax as a source of local general revenues declined between 1992 and 2006, there was a tendency to increase reliance on state aid as a source of local general revenues. In fact, the correlation coefficient between the change in property tax shares of local general revenues from 1992 to 2006, and the corresponding increase in the relative share of local general revenues coming from state aid was -0.679 nationally. The relationship is a bit stronger for Iowa and the similarly situated states with a correlation coefficient of -0.776.

While the overall trend seems to be strong across the country and somewhat stronger for Iowa and similarly situated states, there are a couple of states that stand out. For example, according to the data in Appendix Table 1, local governments in Michigan saw the relative importance of the property tax fall by more than 30 percent over this period while the relative importance of state aid increased 37 percent. Similarly, local governments in Oregon saw their reliance on property taxes decline by more than a third over this period while their reliance on state aid increased more than 31 percent.

Even more startling are the cases of New Hampshire and Vermont. In New Hampshire, local governments saw their dependence on property taxes fall by more than a quarter, while their reliance on state aid increased 136 percent. Even more pronounced, local governments in Vermont saw their reliance on local property taxes fall by nearly 72 percent over this period, while their reliance on state aid increased nearly 138 percent.

Some of these individual cases are discussed in more detail in the next section.

### **Specific Examples of Indirect Property Tax Relief**

#### ***California***

There are a couple of very visible and public efforts to reduce property taxes by shifting funding responsibility to the state government. The most talked about and researched is Proposition 13 in California which passed in 1978. The primary purpose of Proposition 13 was to reduce reliance on property taxes as a way of funding education and shift more responsibility for education funding to the state. It appears that Proposition 13 was successful in this effort.

In 1977, the property tax accounted for 65.9 percent of own-source local government revenues in California, and 85.2 percent of local tax revenues. Independent school districts were very important in raising property taxes because they accounted for 48.6 percent of local property tax collections in California in 1977.

By 1982, the property tax accounted for 40.5 percent of own-source local government revenues in California, and 71.4 percent of local tax revenues. By 1982 independent school districts collected just 38.3 percent of property taxes in California. The relative importance of property taxes as a share of own-source local revenues fell by more than 38 percent, and the relative importance of property taxes as a share of local tax revenues fell by more than 16 percent in just five years.

This decline in the relative importance of property taxes in local finance in California between 1977 and 1982 was offset by an increase in state funding of local governments, especially education funding. Specifically, state aid to local governments in California increased from 35.2 percent of general revenues in 1977 to 44.7 percent in 1982.

Thus, it appears that Proposition 13 has been successful in shifting funding of local governments in California from local property taxes to state aid. In addition, this fundamental change in education funding generally succeeded in equalizing per-pupil spending between school districts in California [Downs, p. 409; Silva and Sonstelie, p. 201]. However, there is no evidence that such equalization resulted in or achieved equalization in educational outcomes as measured by test scores. Downs concluded

“There is little evidence that outcomes, as measured by test scores, were less unequal after the school finance reforms of the late 1970’s” [ p. 414]

While there are some successes associated with Proposition 13, we have to ask what unintended consequences have resulted from the radical restructuring of local finance in California as a result of Proposition 13. For example, because the state plays a larger role in funding education, such funding must compete with other pressures on the state’s budget, e.g., increasing importance of state Medicaid expenditures. At least in part as a result of such pressures, per-pupil spending in California went from 13 percent above the U.S. average in 1970 (ranking California 11<sup>th</sup> in education funding among states) to 10 percent below average in 1990 (ranking California 30<sup>th</sup> in education spending among states), which has direct impacts on the quality of education.

Another unintended consequence of Proposition 13 was what is referred to as the “fiscalization” of land use. [Chapman, 1998] Since development no longer generated property tax benefits for the local government, land uses that generated revenues in addition to property taxes became more important. For example, there might now be a bias toward large box stores that generate sales tax revenues rather than residential development. Thus, to the extent that land use decisions by local governments in California are driven by their fiscal consequences, fiscalization has occurred. [Chapman, 1998]

Potentially more troubling is the fact that as a result of Proposition 13, the property tax in California is no longer a local tax. Proposition 13 establishes the rate and base of the tax, thereby removing those decisions from the local government. AB 8, a state law, allocates property tax receipts among the different units of local government – city, county, school district, etc. [Chapman, 1998, p. 4] This is in contrast to the typical local property tax where the base is determined by the local assessor, the rate is determined by local decision-makers elected by residents and, presumably, reflecting voter preferences, and the revenues from the tax go directly to the jurisdiction levying the tax. [Chapman. 2003, p. 21]

### ***Michigan***

A similarly visible effort to reduce property taxes took place in Michigan in 1995. Again, the motivation was to reduce reliance on the property tax as a source of funding education by cutting property taxes and shifting the funding of education to the state. Again, it seems to have been very successful.

In March 1995 Michigan adopted what many consider to be a radical change in the financing of education in the state in an effort to provide more equalization in per pupil spending across school districts. Specifically, the state's general sales tax rate was increased from 4 to 6 percent, the new sales tax revenues were earmarked for education, and property assessments increases were limited to the lesser of inflation or 5 percent, with properties reassessed at market value when they sold. In addition, a state property tax was instituted with its revenue earmarked for education, a portion of the state income tax was earmarked for education and additional revenues were earmarked for education from the real estate transfer tax, the tobacco tax, lottery revenues and other excise taxes. [Fisher and Wassmer]

As a result of these changes the state now generates about 75 percent of revenues for schools which has reduced reliance on property taxes significantly. [Fisher and Wassmer, p. 422] For example, in 1992, the property tax accounted for 62.4 percent of local own source revenues in Michigan, but declined to just 47.3 percent by 1997. Property taxes accounted for 93.2 percent of local taxes in 1992, but declined slightly to 89.1 percent of local taxes in 1997. This decline in the relative importance of the property tax was offset by increased reliance on state aid, primarily for education. Specifically, in 1992 state aid to local governments accounted for 31.2 percent of general revenues, but increased to 49.2 percent of general revenues by 1997.

Again, there may be unintended consequences from shifting education funding from local to state government. For example, because the School Aid Fund in Michigan depends on sales and excise taxes and personal income taxes for funds to support schools, the fund is more sensitive to cyclical fluctuations than the property tax. As the state experiences economic slowdowns, or state funds are reallocated from education spending to other state services (e.g, health services), or voters resist efforts to increase taxes for other services, Fisher and Wassmer conclude that spending for education, and the resulting level and quality of service provided, may decline if revenue is insufficient to fund planned spending. [p.425]

### ***Vermont***

As noted above, local government reliance on the property tax in Vermont fell dramatically (72 percent) between 1992 and 2006. At the same time, local government reliance

on state aid increased nearly 138 percent. These significant changes in the fiscal environment have their genesis in the school equalization controversy. In 1997, the Vermont Supreme Court declared the states education finance system unconstitutional and ordered the state to establish a system in which "children who live in property-poor districts and children who live in property-rich districts should be afforded a substantially equal opportunity to have access to similar educational revenues." The ruling called for the establishment of an education finance system that was equitable and that no longer tied local education spending to local property wealth (that is, a system that would be wealth-neutral).

The state legislature responded by enacting Act 60, a controversial measure that implemented a state property tax, revenue from which was earmarked for K-12 education. The act also created a system that redistributed local property taxes from wealthier to poorer communities for education finance. These combined measures greatly reduced the amount of local property taxes collected by towns and cities in the state (Hollins Saas 2007).

In 1997, local governments in Vermont received 61.5 percent of total local general revenues from property taxes; this figure declined to just 28.7 percent in 2002. Alternatively, local governments in Vermont received just 24.2 percent of total local general revenues from state aid in 1997; this figure increased to 55.4 percent by 2002.

The impetus for Act 60 was not property tax relief, but rather school equalization litigation. The consequences of Act 60 were bitter political debates over the use of property taxes to redistribute wealth. The property tax has never been viewed by public finance experts as a particularly efficient or effective means of redistribution. Efforts to modify Act 60 have had varying degrees of success in the ten years since enactment.

### ***New Hampshire***

New Hampshire like Vermont experienced significant declines in local government reliance on property taxes between 1992 and 2006. And like Vermont, the reason for this decline in directly related to school equalization litigations. In 1997, the New Hampshire Supreme Court declared the state's public school system unconstitutional and ordered the state to devise a plan to finance education without local property tax revenue.

In response the legislature enacted a "Statewide Property Tax" in 1999, the revenue from which was completely earmarked for elementary and secondary education. The tax was levied at .66 of equalized value. The statewide property tax only raised 54 percent of the revenue needed to replace the local property tax. The legislature also increased the rates on the Business Profits Tax and the Business Enterprise Tax; the revenue from the increases was also earmarked for education. (England 2008).

In 1997, local governments in New Hampshire received 71.5 percent of total local general revenues from property taxes; this figure declined to 48.5 percent by 2002. Alternatively, local governments in New Hampshire received 13.1 percent of total local general revenues from state aid in 1997; this figure increased to 35.6 percent by 2002.

## ***Oregon***

Unlike New Hampshire and Vermont, Oregon's decline in local property tax reliance (33 percent) is a direct result of public unhappiness with the tax. As an outgrowth of Proposition 13, Oregon voters approved Measure 5 in 1990 which capped property tax rates at 1 percent for non-school taxes and 1.5 percent for school property taxes. In 1997, Oregon voters approved Measure 50 which imposed a three percent limit on property assessments. But the Oregon limitation was far more complicated than that passed in California. The assessed value on all property was reduced to its 1995 value less 10 percent. The measure created a new "maximum assessed value" which is the greater of either 103 percent of the assessed value from the previous year or the property's maximum assessed value from the previous year. Exceptions were made if a property had a change such as a new addition. Property taxes could still be increased through local options elections. Approval requires that a majority of voters participate and a majority of those vote "yes." This double majority requirement does not apply during general elections in November of even numbered years. Bond elections for things such as new schools, fire trucks, or land purchase also fall under this requirement. Schools cannot utilize local option elections for operating costs.

As a result of the initiatives, state and local taxes paid by Oregon households declined from 7.4 percent of income in 1989 to 6.8 percent in 2003; and local governments now rely on user fees to an unprecedented degree. [Thompson and Green, 2004]

## **Trends in Reliance on User Charges and Property Taxes**

In addition to increased reliance on state aid, another trend of interest is the increasing reliance of local governments on user charges as another effort to provide indirect property tax relief.

Appendix Table 2 reports the reliance of local governments on current charges and property taxes in 1992 and 2006. For the nation as a whole, local governments received 14.7 percent of their general revenues from current charges in 1992. This share increased modestly to 15.9 percent in 2006. In 1992, ten states provided 20 percent or more of local general revenues through current charges.<sup>7</sup> Local governments in only 6 states, and the District of Columbia, relied on current charges for less than 10 percent of their general revenues – Connecticut, Maine, New Hampshire, New Jersey, Rhode Island and Vermont.

In 2006, local governments in ten states depended on current charges for 20 percent or more of local general revenues; albeit the list of ten states is somewhat different than it was in 1992.<sup>8</sup> By 2006, five states, and the District of Columbia, relied on current charges for less than 10 percent of local general revenues – Connecticut, New Hampshire, New Jersey, Rhode Island and Vermont.

In 1992, Iowa local governments received 18.7 percent of their general revenues from current charges – slightly more than the average for the nation as a whole – and the share of

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<sup>7</sup> Alabama, Florida, Georgia, Idaho, Mississippi, Nevada, Oklahoma, South Carolina, Tennessee and Wyoming.

<sup>8</sup> Alabama, Florida, Idaho, Iowa, Mississippi, North Carolina, South Carolina, Tennessee, Washington and Wyoming.

general revenues from current charges increased in Iowa to 20.1 percent by 2006 – still above the national average.

Table 2  
User Charges and Property Taxes  
as a Share of Local General Revenues,  
1992 and 2006  
For  
States Similarly Situated with Iowa

	User Charges as a Share of Local General Revenues		Property Taxes as a Share of Local General Revenues	
	1992	2006	1992	2006
<b>United States</b>	14.7	15.9	29.9%	27.9%
<b>Arkansas</b>	16.7	13.4	19.9	10.2
<b>Idaho</b>	21.2	26.6	26.7	27.5
<b>Illinois*</b>	11.4	15.4	38.8	36.3
<b>Iowa</b>	18.7	20.1	35.2	30.8
<b>Kansas</b>	14.2	16.0	37.0	30.7
<b>Kentucky</b>	13.8	13.1	14.7	18.5
<b>Minnesota*</b>	16.1	18.2	28.2	21.5
<b>Missouri*</b>	16.5	17.2	24.8	26.5
<b>Nebraska*</b>	17.5	17.0	37.6	33.5
<b>North Carolina</b>	18.9	22.3	21.4	22.8
<b>North Dakota</b>	10.5	12.0	31.8	32.2
<b>South Dakota*</b>	6.5	7.1	40.8	34.9
<b>Wisconsin*</b>	12.7	12.4	34.8	35.5

\*States contiguous with Iowa.

For the twelve similarly situated states the story is once again a mixed bag. Six of the similarly situated states have local governments that relied less on user charges in 1992 than local governments nationally. In addition, local governments in six similarly situated states were less dependent on user fees in 2006 than local governments nationally. While local dependence on user charges increased nationally and in Iowa between 1992 and 2006, local governments in four of the similarly situated states actually reduced reliance on user charges between 1992 and 2006 (Arkansas which went from above the national average to below the national average, Kentucky which was below the national average in both years, Nebraska which was above the national average both years, and Wisconsin which was below the national average both years).

To answer the question posed here (To what extent do local governments reduce pressure on the property tax by relying on current charges?) we need to look at trends across all states in their reliance on current charges and property taxes. The last column in Appendix Table 2 reports the change in the property tax share of local general revenues between 1992 and 2006 by state.

Unlike the case for state aid discussed above, there does not appear to be a tendency between 1992 and 2006 for local governments nationally to increase reliance on current charges in an effort to reduce reliance on property taxes. Specifically, the correlation coefficient between the change in property taxes as a share of local general revenues from 1992 to 2006, and the corresponding increase in the relative share of local general revenues coming from current charges was -0.152. The story is similar for Iowa and the twelve similarly situated states where the correlation coefficient is 0.278.

A couple of states, however, do stand out in terms of increasing reliance of local governments on current charges as a source of general revenues. For example, local governments in Utah increased their reliance on current charges as a source of general revenue by 37 percent between 1992 and 2006. Similarly, local governments increased reliance on current charges by more than 30 percent in Montana (36 percent); Wyoming (35.6 percent); Illinois (34.5 percent) and Colorado (31.1 percent). However, there is no significant decline in the relative importance of property taxes as a source of local general revenues in any of these states. On average, local governments in these states reduced their reliance on property taxes by 8 percent over this period, compared to an average reduction nationally of 6.5 percent.

With the exception of Wyoming, all of these states have local public sectors smaller than local governments nationally with local general revenues accounting for between \$96.75 per \$1,000 personal income in Montana to \$109.48 in Illinois. This is compared with \$114.52 for the nation as a whole in 2006.

### ***Tax Exempt Organizations and User Fees***

All states authorize local government entities to impose some forms of user fees and charges. These fees vary dramatically from state to state and, indeed, from local government to local government. Some states authorize fees for entrance into parks and other recreational areas. Some authorize fees for waste and trash removal. Some even allow fees for library loans. But the largest revenue producers are charges for water and sewage services. All states authorize some form of local government to provide and charge for water and sewage services. A review of existing literature, as well as the statutory authority, shows that no states formally exempt any organizations from paying water and sewage fees to a local government. Moreover, we could not locate any state statutes that exempt charities or other non-profits from user fees and charges. It is possible; however, that charities and non-profits receive some form of exemption from some local governments. (See generally Brody 2002).

Some non-profits make payments-in-lieu of taxes to local governments where they are located (PILOTs). An in depth exploration of the many issues dealing with PILOTs are beyond the scope of this project. In general, PILOTs are widely used throughout the United States as a means of compensating local governments for revenue lost due to property tax exemptions, and possibly any lost revenues from exemptions from user fees. There is very little statutory authority for asking for or negotiating PILOTs. In some, mostly large cities, local officials ask non-profit property owners to pay a share of municipal services. A study published in 2002 found that only 7 of the largest 50 cities in the United States routinely solicited PILOTs from non profit organizations. According to that study, no cities in Iowa request non-profits to make such contributions (Brody 2002).

### ***User Fees and Charges for Public Safety Services***

Surprisingly, every state, including Iowa, authorizes local governments to charge a fee for some public safety services. In the vast majority of cases, the fees are authorized for fire and ambulance services. For example, Iowa authorizes volunteer fire departments to charge a fee for all emergency and non-emergency responses (Code of Iowa, Sec. 364.16). The City of Hawarden, as an illustration, charges \$500 for an emergency call (see <http://www.cityofhawarden.com/citycode/035fire.html>).

States surrounding Iowa all authorize local governments to impose some form of charge of fee for some public safety services. Kansas for example authorizes municipalities "to establish and collect any charges to be made for emergency medical services or ambulance services within or without the municipality and to provide for an audit of the records of the emergency medical services operation or ambulance services". KS. Statutes Ann. sec 65.-6116. Also, in Nebraska, state law states that "The county board or governing body may contract with any city, person, firm, or corporation licensed as an emergency medical service for emergency medical care by out-of-hospital emergency care providers. Each may enter into an agreement with the other under the Interlocal Cooperation Act or Joint Public Agency Act for the purpose of establishing an emergency medical service or may provide a separate service for itself. Public funds may be expended therefore, and a reasonable service fee may be charged to the user." Neb. Rev. Statutes 13.13-303. Finally, in Illinois, we found a number of newspaper references to cities charging for emergency services but we did not find the legal authorization for such charges, albeit we are certain that it exists somewhere.

Overwhelmingly, the services upon which fees are charged are ambulance and fire calls. In most, if not all, states, the fees and charges are eligible for full or partial reimbursement by insurance programs. Moreover, in most states, local governments have the authority to waive public safety fees for low income residents. In addition, some states limit the charges to non-emergency services. The authors have additional details on selective public safety user fees in each state.

### **Unintended Consequences of Indirect Property Tax Relief**

As we proceed with this analysis, we also need to think broadly about what we mean by "successful efforts" to alleviate the property tax burden through indirect relief mechanisms. We can point to much publicized states like California and Michigan, or more recently New Hampshire and Vermont, which have "successfully" substituted state financing of local services (particularly education) for reductions in local property taxes. But what has been the impact on the level and quality of those services after financing was centralized? If the level and quality of service deteriorates significantly after financing has been centralized at the state level, as it did in California, was that a successful initiative? We also need to consider what other costs might be associated with the centralization of financing or delivery of what might initially be considered local public goods and services.

There is evidence that state and local governments have been successful in providing indirect property tax relief to local governments, primarily through increased reliance on state

aid. But such substitution results in unintended consequences which may be undesirable. For example, as mentioned above centralization of funding of education has resulted in reduced per pupil funding in California, compared to other states. Similar concerns have been expressed in Michigan about declines in education funding as it competes with other state priorities in an environment of limited tax increases and the threat of limited economic growth.

More importantly, we believe one of the major threats of such centralization of funding is a loss of autonomy for local governments generally. For example, greater reliance on state aid reduces local government reliance on revenue sources they control, which undermines our federal system of government. Local governments are more responsive to local needs because they have greater access to local residents and more flexibility in providing the services demanded by those residents. Local government is more efficient in providing local services because local government officials know the costs and benefits of those services. Relying on state political leaders to pay for local police, fire, ambulance service and school services puts the funding of such local services at risk as they compete for funds with other state priorities like healthcare.

In addition, state funding can jeopardize local control. Virtually all state aid comes with rules and regulations about how the funds are to be spent. Governors and lawmakers will have greater control over how funds sent to cities, towns and counties should be used. The historical record suggests that such strings accompany all forms of financial centralization. Funding that comes with restrictions can affect such aspects of local life as the books shelved in the local library, the bias of school curricula, and the artwork adorning local public buildings.

Increased state funding also creates long-term uncertainties for local government finance. State political leaders will be forced to decide among competing interests. The problem is that increased dependence on state funding, and financial control, could compromise local interests and undermine the localism that has historically been the bedrock of our federal system of government.

### **Implications for Iowa**

The previous sections suggest that there has been a tendency across the county over the last 15 years to substitute state aid for local property taxes, albeit the most visible of those efforts have been mostly, but not entirely, a result of education finance reform efforts, often in response to court actions. There has not been a similar trend in substituting charges for local property taxes for many of the reasons discussed above. This section briefly considers the implications of such indirect property tax relief measures for Iowa in light of its state and local fiscal capacity.

As documented in Appendix Tables 1 and 2, in 2006 local governments in Iowa rely on state aid as a source of local general revenues somewhat less than local governments nationally, 32.7 and 33.9 percent respectively. Alternatively, local governments in Iowa rely somewhat more heavily on the property tax as a source of general revenue than local governments nationally (30.8 and 27.9 percent respectively) and much more heavily on current charges as a source of revenue than local governments nationally (20.1 and 15.9 percent respectively).

In terms of the size of local government, Iowa is exactly at the national average; own-source local revenues in Iowa account for 7.1 percent of state personal income, exactly equal to the national average. Only two of the twelve similarly situated states have local public sectors, measured as local own-source revenues as a share of state personal income, that are larger than Iowa – Illinois (7.3 percent) and Nebraska (7.8 percent).

But it is not as easy for Iowa to accomplish this as other state. For example, according to a recent study by the Tax Policy Center at the Urban Institute and the Federal Reserve Bank of Boston (Yilmaz, et al) which analyzes the revenue, expenditure and overall fiscal capacity of state and local governments nationally, the revenue capacity of state and local governments in Iowa is 94 percent of the national average; while the actual effort to raise own-source revenues from available sources is 101 percent of the national average. Five of the similarly situated states have a greater capacity for state and local governments to generate revenues compared to Iowa (Illinois, 102; North Dakota, 97; South Dakota, 95; and Wisconsin, 95). State and local governments in only three of the similarly situated states, however, make a greater effort to raise own-source revenues than Iowa – Idaho, 102; Nebraska, 109; and Wisconsin, 105.

Table 3  
Size of the Local Public Sector and Revenue Capacity and Effort Measures  
Similarly Situated States

	Local Own-Source Revenue as Percent of State Personal Income, 2006	Fiscal Capacity and Effort by State, 2005	
		Capacity Index	Effort Index
<b>United States</b>	7.1	100	100
<b>Arkansas</b>	4.2	78	101
<b>Idaho</b>	6.3	82	102
<b>Illinois*</b>	7.3	102	94
<b>Iowa</b>	7.1	94	101
<b>Kansas</b>	7.0	92	100
<b>Kentucky</b>	4.8	83	96
<b>Minnesota*</b>	5.6	110	99
<b>Missouri*</b>	6.5	92	89
<b>Nebraska*</b>	7.8	94	109
<b>North Carolina</b>	6.3	88	98
<b>North Dakota</b>	5.7	97	98
<b>South Dakota*</b>	5.6	95	81
<b>Wisconsin*</b>	6.3	95	105

\*States contiguous with Iowa.

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Appendix  
Table 1

State Aid and Property Taxes as a Share of Local General Revenues, 1992 and 2006

State	State Aid as a Share of Local General Revenues			Property Taxes as a Share of Local General Revenues		
	1992	2006	Change in Share	1992	2006	Change in Share
			1992 to 2006			1992 to 2006
<b>United States</b>	34.2%	33.9%	-0.8%	29.9%	27.9%	-6.5%
<b>Alabama</b>	34.6%	34.1%	-1.5%	10.1%	11.2%	11.0%
<b>Alaska</b>	38.0%	32.4%	-14.8%	24.2%	29.4%	21.4%
<b>Arizona</b>	36.9%	36.9%	-0.2%	27.8%	23.4%	-15.7%
<b>Arkansas</b>	43.2%	51.8%	20.0%	19.9%	10.2%	-48.7%
<b>California</b>	44.4%	43.1%	-2.8%	20.2%	18.1%	-10.5%
<b>Colorado</b>	27.1%	24.4%	-9.9%	28.5%	26.2%	-8.1%
<b>Connecticut</b>	30.7%	30.1%	-1.9%	55.0%	55.7%	1.1%
<b>Delaware</b>	45.3%	47.0%	3.7%	21.6%	21.6%	-0.3%
<b>District of Columbia</b>	0.0%	0.0%	0.0%	19.2%	13.2%	-31.0%
<b>Florida</b>	28.3%	24.5%	-13.4%	30.1%	30.1%	-0.1%
<b>Georgia</b>	27.1%	29.3%	8.0%	26.7%	26.4%	-1.1%
<b>Hawaii</b>	11.1%	10.9%	-1.0%	44.9%	45.7%	1.6%
<b>Idaho</b>	42.0%	35.7%	-14.9%	26.7%	27.5%	3.3%
<b>Illinois</b>	27.8%	27.8%	0.3%	38.8%	36.3%	-6.3%
<b>Indiana</b>	36.4%	33.0%	-9.5%	32.1%	34.2%	6.6%
<b>Iowa</b>	33.8%	32.7%	-3.3%	35.2%	30.8%	-12.4%
<b>Kansas</b>	27.0%	33.3%	23.4%	37.0%	30.7%	-17.1%
<b>Kentucky</b>	42.7%	39.3%	-8.1%	14.7%	18.5%	26.5%
<b>Louisiana</b>	32.2%	34.2%	6.3%	14.6%	14.9%	2.2%
<b>Maine</b>	37.7%	29.9%	-20.9%	45.4%	51.2%	12.8%
<b>Maryland</b>	26.1%	27.2%	4.3%	31.4%	24.8%	-20.9%
<b>Massachusetts</b>	33.1%	37.1%	12.1%	44.8%	42.3%	-5.5%
<b>Michigan</b>	31.2%	42.8%	37.0%	41.3%	28.8%	-30.4%
<b>Minnesota</b>	38.3%	45.7%	19.4%	28.2%	21.5%	-23.8%
<b>Mississippi</b>	38.9%	41.5%	6.8%	21.0%	20.7%	-1.5%
<b>Missouri</b>	30.9%	28.9%	-6.4%	24.8%	26.5%	7.1%
<b>Montana</b>	28.5%	35.8%	25.7%	33.8%	30.8%	-8.9%
<b>Nebraska</b>	27.3%	26.0%	-4.7%	37.6%	33.5%	-11.0%
<b>Nevada</b>	39.4%	36.4%	-7.7%	18.4%	20.5%	11.8%
<b>New Hampshire</b>	12.6%	29.7%	136.3%	73.1%	54.3%	-25.7%
<b>New Jersey</b>	34.2%	29.4%	-14.0%	49.2%	52.8%	7.4%
<b>New Mexico</b>	51.4%	49.9%	-2.8%	11.1%	13.4%	20.6%
<b>New York</b>	32.8%	31.4%	-4.1%	30.2%	27.0%	-10.6%
<b>North Carolina</b>	41.2%	37.9%	-8.0%	21.4%	22.8%	6.3%
<b>North Dakota</b>	35.5%	33.9%	-4.6%	31.8%	32.2%	1.1%
<b>Ohio</b>	33.3%	36.4%	9.4%	28.4%	26.5%	-6.6%
<b>Oklahoma</b>	38.0%	36.6%	-3.7%	15.5%	18.2%	17.4%
<b>Oregon</b>	26.8%	35.1%	31.1%	39.3%	26.1%	-33.7%
<b>Pennsylvania</b>	32.7%	35.1%	7.2%	30.1%	28.4%	-5.5%
<b>Rhode Island</b>	24.2%	30.4%	26.0%	59.9%	53.3%	-11.1%
<b>South Carolina</b>	35.0%	29.5%	-15.5%	29.3%	28.3%	-3.7%

<b>South Dakota</b>	22.7%	25.8%	13.7%	40.8%	34.9%	-14.5%
<b>Tennessee</b>	28.2%	29.4%	4.3%	22.0%	23.1%	5.0%
<b>Texas</b>	29.3%	24.7%	-15.7%	36.0%	39.2%	9.0%
<b>Utah</b>	36.2%	32.7%	-9.6%	27.3%	24.9%	-9.1%
<b>Vermont</b>	28.1%	66.7%	137.9%	58.5%	16.5%	-71.8%
<b>Virginia</b>	28.3%	33.2%	17.2%	35.1%	32.2%	-8.3%
<b>Washington</b>	40.0%	33.7%	-15.7%	18.2%	20.6%	12.9%
<b>West Virginia</b>	44.3%	43.3%	-2.2%	19.7%	24.1%	22.8%
<b>Wisconsin</b>	43.1%	42.5%	-1.3%	34.8%	35.5%	2.1%
<b>Wyoming</b>	39.1%	34.1%	-12.9%	25.1%	23.2%	-7.8%

Appendix Table 2  
Current Charges and Property Taxes as a Share of Local General Revenues, 1992 and 2006

State	Current Charges as a Share of Local General Revenues			Property Taxes as a Share of Local General Revenues		
	1992	2006	Change in Share 1992 to 2006	1992	2006	Change in Share 1992 to 2006
<b>United States</b>	14.7%	15.9%	7.7%	29.9%	27.9%	-6.5%
<b>Alabama</b>	26.4%	26.0%	-1.6%	10.1%	11.2%	11.0%
<b>Alaska</b>	13.0%	14.3%	9.6%	24.2%	29.4%	21.4%
<b>Arizona</b>	11.7%	13.7%	16.7%	27.8%	23.4%	-15.7%
<b>Arkansas</b>	16.7%	13.4%	-19.4%	19.9%	10.2%	-48.7%
<b>California</b>	14.8%	17.8%	19.8%	20.2%	18.1%	-10.5%
<b>Colorado</b>	14.8%	19.4%	31.1%	28.5%	26.2%	-8.1%
<b>Connecticut</b>	6.7%	6.4%	-4.1%	55.0%	55.7%	1.1%
<b>Delaware</b>	16.3%	14.1%	-13.6%	21.6%	21.6%	-0.3%
<b>District of Columbia</b>	5.6%	6.3%	11.8%	19.2%	13.2%	-31.0%
<b>Florida</b>	20.1%	21.3%	6.1%	30.1%	30.1%	-0.1%
<b>Georgia</b>	23.4%	18.5%	-20.9%	26.7%	26.4%	-1.1%
<b>Hawaii</b>	15.8%	16.5%	4.2%	44.9%	45.7%	1.6%
<b>Idaho</b>	21.2%	26.6%	25.7%	26.7%	27.5%	3.3%
<b>Illinois</b>	11.4%	15.4%	34.5%	38.8%	36.3%	-6.3%
<b>Indiana</b>	17.4%	17.9%	2.8%	32.1%	34.2%	6.6%
<b>Iowa</b>	18.7%	20.1%	7.8%	35.2%	30.8%	-12.4%
<b>Kansas</b>	14.2%	16.0%	12.9%	37.0%	30.7%	-17.1%
<b>Kentucky</b>	13.8%	13.1%	-5.0%	14.7%	18.5%	26.5%
<b>Louisiana</b>	17.7%	15.0%	-15.4%	14.6%	14.9%	2.2%
<b>Maine</b>	9.7%	11.0%	13.5%	45.4%	51.2%	12.8%
<b>Maryland</b>	11.3%	11.4%	1.3%	31.4%	24.8%	-20.9%
<b>Massachusetts</b>	12.1%	10.0%	-17.7%	44.8%	42.3%	-5.5%
<b>Michigan</b>	14.1%	15.7%	11.7%	41.3%	28.8%	-30.4%
<b>Minnesota</b>	16.1%	18.2%	13.1%	28.2%	21.5%	-23.8%
<b>Mississippi</b>	27.1%	25.1%	-7.3%	21.0%	20.7%	-1.5%
<b>Missouri</b>	16.5%	17.2%	4.7%	24.8%	26.5%	7.1%
<b>Montana</b>	12.1%	16.4%	36.0%	33.8%	30.8%	-8.9%
<b>Nebraska</b>	17.5%	17.0%	-2.8%	37.6%	33.5%	-11.0%
<b>Nevada</b>	20.3%	17.2%	-15.4%	18.4%	20.5%	11.8%
<b>New Hampshire</b>	8.4%	8.4%	-0.1%	73.1%	54.3%	-25.7%
<b>New Jersey</b>	9.5%	9.6%	1.4%	49.2%	52.8%	7.4%
<b>New Mexico</b>	13.9%	11.2%	-19.2%	11.1%	13.4%	20.6%
<b>New York</b>	11.8%	10.8%	-8.9%	30.2%	27.0%	-10.6%
<b>North Carolina</b>	18.9%	22.3%	17.9%	21.4%	22.8%	6.3%
<b>North Dakota</b>	10.5%	12.0%	13.6%	31.8%	32.2%	1.1%
<b>Ohio</b>	12.4%	13.3%	7.0%	28.4%	26.5%	-6.6%
<b>Oklahoma</b>	20.0%	19.0%	-5.0%	15.5%	18.2%	17.4%
<b>Oregon</b>	15.4%	17.6%	14.6%	39.3%	26.1%	-33.7%

<b>Pennsylvania</b>	11.5%	11.9%	4.0%	30.1%	28.4%	-5.5%
<b>Rhode Island</b>	6.5%	7.1%	9.1%	59.9%	53.3%	-11.1%
<b>South Carolina</b>	22.6%	27.7%	23.0%	29.3%	28.3%	-3.7%
<b>South Dakota</b>	11.8%	14.3%	21.3%	40.8%	34.9%	-14.5%
<b>Tennessee</b>	24.3%	22.9%	-5.7%	22.0%	23.1%	5.0%
<b>Texas</b>	15.1%	16.2%	7.3%	36.0%	39.2%	9.0%
<b>Utah</b>	12.2%	16.8%	37.0%	27.3%	24.9%	-9.1%
<b>Vermont</b>	7.7%	7.6%	-1.4%	58.5%	16.5%	-71.8%
<b>Virginia</b>	13.7%	13.1%	-4.3%	35.1%	32.2%	-8.3%
<b>Washington</b>	18.6%	20.8%	11.5%	18.2%	20.6%	12.9%
<b>West Virginia</b>	16.9%	13.3%	-21.3%	19.7%	24.1%	22.8%
<b>Wisconsin</b>	12.7%	12.4%	-2.0%	34.8%	35.5%	2.1%
<b>Wyoming</b>	20.4%	27.7%	35.6%	25.1%	23.2%	-7.8%

# **Chapter 3**

## **Section A.8**

# **Local Revenue Raising Patterns Across 50 States**

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The purpose of this research note is to identify the composition of local government revenue sources across states. The first section describes the composition of local government revenues across states. To compare the composition of local revenues across states we use data from the US Census Bureau. These data come from the Census Bureau's government finance series. For purposes of this research note, we report data on total local general revenues. According to the Census Bureau, general revenues include intergovernmental revenues from other governments, taxes, current charges and miscellaneous general revenues. The definition of general revenues does not include revenues from liquor stores, utilities, and social insurance trust funds, in large part, because these revenues are not available to the local government to cover general expenditures.

### *Size of the Local Public Sector*

Before looking at the distribution of local general revenues by source across states, it is important to get a picture of how the size of the local public sector varies across states. Appendix Table 1 presents data on the size of the local government measured as total local general revenues expressed as a share of state personal income. On average nationally, total local government general revenues account for 11.5 percent of total personal income, albeit there is wide variation across states. For example, local governments in New York impose a greater demand on state personal income (16.5 percent) than any other state. New York is followed by Wyoming (15.8 percent), California (13.6 percent), Mississippi (12.7 percent) and Alaska (12.5 percent). At the other extreme, local general revenues in Hawaii account for just 4.6 percent of personal income. This reflects that fact that Hawaii is the only state where education is provided by the state government, not local governments. Local general revenues in Connecticut and Delaware account for 7.8 and 7.4 percent of state personal income, respectively.

Iowa is slightly below the national average with total local general revenues accounting for 11.1 percent of state personal income. Only one of the states that have been identified as

Table 1  
Size of Local Public Sector in Iowa and Similarly Situated States, 2006  
(Percent)

	Local Own-Source Revenue as Percent of State Personal Income	Total Local General Revenues as a Percent of State Personal Income
<b>United States</b>	7.1	11.5
<b>Arkansas</b>	4.2	9.3
<b>Idaho</b>	6.3	10.2
<b>Illinois*</b>	7.3	10.9
<b>Iowa</b>	7.1	11.1
<b>Kansas</b>	7.0	10.9
<b>Kentucky</b>	4.8	8.4
<b>Minnesota*</b>	5.6	10.9
<b>Missouri*</b>	6.5	9.8
<b>Nebraska*</b>	7.8	11.0
<b>North</b>	6.3	10.7

<b>Carolina</b>		
<b>North Dakota</b>	5.7	9.5
<b>South Dakota*</b>	5.6	8.3
<b>Wisconsin*</b>	6.3	11.5
<b>*States contiguous with Iowa.</b>		

being similarly situated with Iowa<sup>1</sup> has a larger local public sector measured as total general revenues as a share of state personal income than Iowa –total local general revenues in Wisconsin account for 11.5 percent of state personal income.

Since general revenues include intergovernmental revenues from both the state and federal governments, it may be more relevant to look at the claim local own-source revenues make on personal income. According to the data in Appendix Table 1, local own-source revenues account, on average, for 7.1 percent of personal income. New York (10.7 percent) and Wyoming (10.0 percent) are the only two states where local own-source revenues account for 10 percent of personal income, or more. Three states have local own-source revenues accounting for less than 4 percent of state personal income – Vermont (2.7 percent), Delaware (3.7 percent) and Hawaii (3.7 percent).

Local governments in Iowa have own-source revenues that account for 7.1 percent of state personal income, exactly the same as local governments nationally. Of the dozen states similarly situated to Iowa, only Nebraska has local governments that have own-source revenues that account for a larger share of state personal income (7.8 percent) than local governments in Iowa. All the other similarly situated states (except for Illinois) have local public sectors that are smaller than Iowa both in terms of total general revenues and own-source revenues as a share of state personal income.

### ***Financing Local Government: Intergovernmental and Own-Source Revenues***

While the size of the local public sector varies across states, how those local governments are financed also varies across state. At the most basic level, Appendix Table 2 presents data on the extent to which local governments in each state rely on intergovernmental and own-source revenue. According to the data in Appendix Table 2, nationally, local governments receive 38.3 percent of their general revenues from intergovernmental assistance with the vast majority of that coming from state governments in the form of aid to education. Own-source revenues account for 61.7 percent of local general revenues nationally.

The relative importance of intergovernmental, and own-source, revenues as a share of local general revenues varies substantially across states. For example, local governments in Vermont depend on intergovernmental revenues for 70.2 percent of their general revenues. This

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<sup>1</sup> We define a set of states that are similarly situated to Iowa to include the six states that neighbor Iowa (Illinois, Minnesota, Missouri, Nebraska, South Dakota and Wisconsin) and states that have similar economic characteristics as Iowa and depend relatively heavily on farming and manufacturing as contributors to their Gross State Domestic Product (Arkansas, Idaho, Kansas, Kentucky, North Carolina and North Dakota).

is in contrast to Hawaii where local governments depend on intergovernmental revenues for just 19.2 percent of their general revenues.

Local governments in Iowa are somewhat less dependent on intergovernmental revenue (36.5 percent) than local governments nationally; and somewhat more reliant on own-source revenues than local governments nationally. The experience with states similarly situated with Iowa is mixed, as it is nationally. Local governments in seven of the comparison states rely more heavily on intergovernmental revenues than local governments nationally or in Iowa with the greatest dependence for local governments in Arkansas (55.4 percent of general revenues), Minnesota (49.1 percent) and Wisconsin (45.4 percent). The other five comparison states have local governments less dependent on intergovernmental assistance than local governments in Iowa or nationally with the lowest dependence being for local governments in South Dakota (32.5 percent of local general revenues), Missouri (33.4 percent) and Illinois (33.6 percent). Those local governments with greatest dependence on intergovernmental grants naturally have the least dependence on own-source revenues and those with the least dependence on intergovernmental grants have the greatest dependence on own-source revenues.

Table 2  
Share of Local General Revenue from Intergovernmental Grants and Own-Source Revenues,  
Iowa and Similarly Situated States, 2006  
(Percent)

	Intergovernmental Revenues as a Share of Local General Revenues, 2006	Own-Source Revenues as a Share of Local General Revenues, 2006
<b>United States</b>	38.3	61.7
<b>Arkansas</b>	55.4	44.6
<b>Idaho</b>	38.8	61.2
<b>Illinois*</b>	33.6	66.4
<b>Iowa</b>	36.5	63.5
<b>Kansas</b>	35.7	64.3
<b>Kentucky</b>	43.1	56.9
<b>Minnesota*</b>	49.1	50.9
<b>Missouri*</b>	33.4	66.6
<b>Nebraska*</b>	29.1	70.9
<b>North Carolina</b>	41.4	58.6
<b>North Dakota</b>	39.5	60.5
<b>South Dakota*</b>	32.5	67.5
<b>Wisconsin*</b>	45.4	54.6
<b>*States contiguous with Iowa.</b>		

## ***Local Reliance on Own-Source Revenues: Taxes***

As mentioned above, local general revenues from own-sources account for 61.7 percent of total local general revenues nationally in 2006. Own-source revenues are broken down into three categories – taxes, current charges and miscellaneous general revenues. Appendix Table 3 reports data on the relative importance of each of these sources of revenue. Nationally, local taxes accounted for 63.1 percent of local own-source revenues while current charges accounted for 25.7 percent and miscellaneous general revenues accounted for 11.2 percent. Local governments in Connecticut depend on local taxes for 85.4 of there own-source revenue. Local governments in seven other states, mostly concentrated in the Northeast part of the country, depend on local taxes for at least 75 percent of own-source revenues – Maine (77.3 percent), Maryland (76.2 percent), Massachusetts (76 percent), New Hampshire (82 percent), New Jersey (79.2 percent), New York (75.3 percent) and Rhode Island (83.8 percent).

In contrast, local governments in Mississippi receive only 42.1 percent of their own-source revenues from local taxes. Local governments in five other states receive less than 50 percent of their own-source revenues from taxes – Alabama (46.2 percent), Idaho (49.4 percent), Minnesota (46.3 percent), South Carolina (49.1 percent) and Wyoming (48.4 percent). Three of these states are in the South and three are in the Plains region of the US.

Local governments in Iowa receive 59.2 percent of their own revenues from taxes, which is 6 percent below the share nationally. The story is a bit different for the similarly situated states where local governments in eight of those states rely more on tax revenues than local governments nationally or in Iowa. The greatest dependence is local governments in South Dakota which generate 70.8 percent of their own-source revenues from taxes followed closely by Wisconsin (69.9 percent) and Illinois (67.4 percent).

Table 3  
Taxes, Charges and Miscellaneous Revenues as a Share of Own-Source Local Revenues,  
Iowa and Similarly Situated States, 2006  
(Percent)

	Taxes as a Share of Own-Source Local Revenues, 2006	Charges as a Share of Own-Source Local Revenues, 2006	Miscellaneous General Revenues as a Share of Own- Source Local Revenues, 2006
<b>United States</b>	63.1	25.7	11.2
<b>Arkansas</b>	53.1	30.1	16.8
<b>Idaho</b>	49.4	43.5	7.0
<b>Illinois*</b>	67.4	23.2	9.4
<b>Iowa</b>	59.2	31.7	9.1
<b>Kansas</b>	62.2	24.9	12.9
<b>Kentucky</b>	61.3	23.0	15.7
<b>Minnesota*</b>	46.3	35.7	18.0
<b>Missouri*</b>	65.3	25.9	8.8
<b>Nebraska*</b>	61.6	24.0	14.4

<b>North Carolina</b>	52.3	38.1	9.6
<b>North Dakota</b>	62.7	19.8	17.6
<b>South Dakota*</b>	70.8	21.3	7.9
<b>Wisconsin*</b>	69.9	22.7	7.4

\*States contiguous with Iowa.

Appendix Table 4 presents information on the relative importance of various sources of tax revenue. Nationally, 71.7 percent of local tax revenues come from property taxes, followed by general sales taxes (11.5 percent), selective sales taxes (4.9 percent), individual income taxes (4.7 percent) and other taxes (6.1 percent).<sup>2</sup> The District of Columbia (4.8 percent of tax revenues) and local governments in 6 other states generate revenues from the corporate income tax – Alabama (1.1 percent of tax revenues), Kentucky (3.1 percent), Missouri (0.3 percent), New York (7.6 percent), Ohio (0.2 percent, and Oregon (1.1 percent).

#### *Local Property Taxes*

The most important source of local tax revenue is the local property tax. Nationally, local governments receive 71.7 percent of their tax revenues from the property tax. Local governments in Maine and New Hampshire rely on the property tax for 98.3 percent of local tax revenues. Conversely, in addition to the District of Columbia, local governments in five states depend on local property taxes for less than 50 percent of their tax revenues – Alabama (39.6 percent), Arkansas (43 percent), Louisiana (39.9 percent), Maryland (48.2 percent) and New Mexico (48.2 percent).

Local governments in Iowa depend on the local property tax for 82 percent of their tax revenues – about 14 percent above the share for local governments nationally. For local governments in three similarly situated states – Arkansas (43.0 percent), Kentucky (53.1 percent) and Missouri (61.0 percent) the property tax is a less important source of tax revenue than it is in Iowa or the other similarly situated states. In fact, in nine of the similarly situated states local governments generate a larger share of tax revenue from the property tax than local governments nationally and in four of the similarly situated states local governments depend on the property tax as a source of tax revenues to a greater extent than local governments in Iowa – Idaho (91.1 percent), Minnesota (91.2 percent), North Dakota (84.8 percent) and Wisconsin (93.0 percent).

Table 4  
Share of Local Tax Revenues from Property Tax, Iowa  
and Similarly Situated States, 2006  
(Percent)

	Share of Local Tax Revenues from Local Property Tax
<b>United States</b>	71.7
<b>Arkansas</b>	43.0

<sup>2</sup> According to the US Census Bureau's definition, Other Taxes include death and gift taxes, documentary and stock transfer taxes, and severance taxes.

<b>Idaho</b>	91.1
<b>Illinois*</b>	81.2
<b>Iowa</b>	82.0
<b>Kansas</b>	76.8
<b>Kentucky</b>	53.1
<b>Minnesota*</b>	91.2
<b>Missouri*</b>	61.0
<b>Nebraska*</b>	76.6
<b>North Carolina</b>	74.2
<b>North Dakota</b>	84.8
<b>South Dakota*</b>	72.9
<b>Wisconsin*</b>	93.0

**\*States contiguous with Iowa.**

### *Real Estate Transfer Taxes*

An important revenue source related to property taxes is a class of taxes referred to as real estate transfer taxes. Basically, the idea is that when real estate changes hands there is a tax associated with the registration of that transaction. Such a tax may be called many things including recordation tax, real property transfer tax, deed recordation fee, deed recordation tax, deed transfer tax, documentary stamp tax, documentary transfer tax, real estate conveyance tax, and the like.

According to an inventory of the 50 states forty states have some sort of real estate transfer tax. Of the ten states that do not have such a tax, three are states similarly situated to Iowa – Idaho, Missouri and North Dakota.

Counties and cities are typically authorized to levy such a tax. The tax liability is typically determined by some tax rate per fraction of value. For example, in Illinois the Real Estate Transfer Tax is applied at a rate of \$0.50 per \$500 of value; the same situation exists in South Dakota as well. Similarly, in Nebraska the Documentary Stamp Tax rate is \$2.25 per \$1,000 of value of the real estate transferred.

See Appendix Table 5 for a detailed description of such taxes across states.

### *Sales Taxes – General and Selective*

While local governments in 16 states do not receive any revenue from a general sales tax, local governments in only two states (Connecticut and New Hampshire) do not receive any revenue from the plethora of selective sales taxes. Local governments in five states receive more than one-third of their tax revenues from the general sales tax – Alabama (38.3 percent), Arkansas (47.7 percent), Louisiana (52.2 percent), New Mexico (39 percent) and Oklahoma (40 percent).

Local governments in Iowa generate 11.4 percent of their tax revenues from the general sales tax, which is almost identical to the national average of 11.5 percent. For states similarly situated to Iowa the range in dependence of local governments on general sales tax revenues as a share of local tax revenues is from a high of 47.7 percent in Arkansas to a low of zero percent in

Idaho. Seven similarly situated states have local governments less dependent on general sales tax revenues than local governments nationally or in Iowa.

Typically, a local sales tax is basically a “piggy back” on a state sales tax where the local government will add a local rate to the state rate which is applied to a tax base defined by the state government. The tax will be collected by the state and then returned to the local government. Alternatively, some states, like Arizona, allow local governments to determine the base of their local sales tax as well as the rate.

Table 5  
Share of Local Tax Revenues from General and Selective Sales Taxes,  
Iowa and Similarly Situated States, 2006  
(Percent)

	Share of Local Tax Revenues from General Sales Tax	Share of Local Tax Revenues from Selective Sales Taxes
<b>United States</b>	11.5	4.9
<b>Arkansas</b>	47.7	7.3
<b>Idaho</b>	0.0	2.5
<b>Illinois*</b>	5.4	10.1
<b>Iowa</b>	11.4	3.3
<b>Kansas</b>	16.8	4.4
<b>Kentucky</b>	0.3	11.5
<b>Minnesota*</b>	1.3	2.8
<b>Missouri*</b>	22.5	7.0
<b>Nebraska*</b>	8.2	3.1
<b>North Carolina</b>	18.7	2.0
<b>North Dakota</b>	11.1	1.9
<b>South Dakota*</b>	22.3	1.3
<b>Wisconsin*</b>	3.1	0.7

\*States contiguous with Iowa.

Selective sales taxes are used more frequently than general sales taxes as a source of tax revenue for local governments. Local governments in only 2 states – Connecticut and New Hampshire – do not receive any tax revenue from selective sales taxes. There is much variation in the relative importance of selective sales taxes across the states – nationally, local governments in seven states receive less than one percent of their tax revenues from selective sales taxes, while local governments in six states receive more than 10 percent of their tax revenues from selective sales taxes.

Local governments in Iowa receive 3.3 percent of their tax revenues from selective sales taxes. Of the states similarly situated with Iowa, local governments in eight of those states receive less than the national average of 4.9 percent of local taxes from selective sales taxes and local governments in all but one of those eight states (Kansas) receive less tax revenues from selective sales taxes than local governments in Iowa. Four of these states have local governments more dependent on selective sales taxes than local governments nationally –

Arkansas (7.3 percent of tax revenues), Illinois (10.1 percent), Kentucky (11.5 percent) and Missouri (7.0 percent).

Selective sales taxes include a number of specific taxes. The Census Bureau defines selective sales taxes as taxes imposed on the sale of particular commodities or services or on gross receipts of particular businesses separately and apart from General Sales or Gross Receipts Taxes. The definition excludes license fees for commodity inspections at a rate per unit of commodity inspected that produces only minor revenue. Selective sales taxes include:

- **Alcoholic Beverages Sales Tax** which are taxes on the sale of alcoholic beverages, whether collected through government-operated liquor stores or through private outlets.
- **Amusements Sales Tax** which are taxes on admission tickets or admission charges and on gross receipts of all or specified types of amusement businesses.
- **Insurance Premiums Sales Tax** which is a tax imposed distinctively on insurance companies and measured by gross premiums or adjusted gross premiums.
- **Motor Fuels Sales Tax** which are taxes on gasoline, diesel oil, aviation fuel, "gasohol", and any other fuels used in motor vehicles or aircraft.
- **Pari-mutuels Sales Tax** which are taxes measured by amounts wagered or bet on horse-racing, dog racing, jai-lai, etc., including "breakage" collected by the government.
- **Public Utilities Sales Tax** which are taxes imposed distinctively on public utilities, and measured by gross receipts, gross earnings, or units of service sold, either as a direct tax on consumers or as a percentage of gross receipts of utility. Public utilities include passenger and freight transportation companies; telephone (land based and mobile), telegraph, cable television providers, and Internet service providers, in addition to the electric power, gas, mass transit, and water supply utilities defined separately for Census Bureau statistics on government-operated utilities.
- **Tobacco Products Sales Tax** which are taxes on tobacco products and synthetic cigars and cigarettes, including related products like cigarette tubes and paper.
- **Other Selective Sales and Gross Receipts Taxes** which are taxes on specific commodities, businesses, or services not reported separately above (e.g., on contractors, hotel/motel, lubricating oil, fuels other than motor fuel, motor vehicles, meals, soft drinks, margarine, etc.).

The Census Bureau reports data on revenue collected from alcohol, motor fuel, public utility and tobacco sales taxes. Revenues from all other selective sales taxes are reported under Other Selective Sales Taxes. Appendix Table 6 reports data on the relative importance of revenues from individual selective sales taxes for local governments nationally and by state. For example, from Appendix Table 6 we see that nationally local governments received 1.9 percent of their total selective sales tax revenues from sales taxes on alcohol sales. In 31 states, however,

local governments receive no revenues from the alcohol sales tax which is typically thought to be a state level tax.

Local governments in Iowa receive no revenues from a selective sales tax on alcohol. Local governments in nine of the 12 states similarly situated to Iowa receive less than one percent of their revenues from selective sales tax from a tax on alcohol. Only local governments in North Carolina receive a significant share (18.7 percent) of their revenues from selective sales taxes from taxes on alcohol.

Similarly, local governments in Iowa receive no selective sales tax revenue from taxes on motor fuels. Again, this is typically a state level tax. Of the 12 states similarly situated with Iowa, local governments in only two states receive more than one percent of their selective sales tax revenues from taxes on motor fuels – Illinois (8.1 percent) and Missouri (2.4 percent).

The situation is much different with selective sales taxes on public utilities. Nationally, local governments receive a majority of their selective sales tax revenues from taxes on public utilities (51.7 percent). In Iowa, local governments receive 72.1 percent of their selective sales tax revenues from taxes on public utilities. Local governments in nine of the 12 states similarly situated to Iowa receive a majority of their selective sales tax revenues from taxes on public utilities. Local governments in only two of the 12 similarly situated states receive no tax revenues from taxes on public utilities – North Carolina and Wisconsin.

Nationally, local governments receive just two percent of their selective sales tax revenues from taxes on tobacco products. Again, this is typically a state level tax. Local governments in Iowa and 10 of the 12 similarly situated states receive no tax revenues from taxes on tobacco products. Local governments in Illinois receive 7.7 percent of their selective sales tax revenues from taxes on tobacco products while local governments in Missouri receive 2.5 percent of their selective sales tax revenues from taxes on tobacco products.

Table 6  
Local Selective Sales Tax Revenues by Source  
Iowa and Similarly Situated States, 2006  
(Percent)

	Share of Local Selective Sales Tax Revenues from Alcohol Sales Tax	Share of Local Selective Sales Tax Revenues from Motor Fuel Sales Taxes	Share of Local Selective Sales Tax Revenues from Public Utility Sales Tax	Share of Local Selective Sales Tax Revenues From Tobacco Sales Tax	Share of Local Selective Sales Tax Revenues From Other Selective Sales Taxes
<b>United States</b>	1.9	5.4	51.7	2.0	39.0
<b>Arkansas</b>	2.2	0.0	79.2	0.0	18.5
<b>Idaho</b>	0.1	0.0	57.1	0.0	42.8
<b>Illinois*</b>	1.9	8.1	45.2	7.7	37.1
<b>Iowa</b>	0.0	0.0	72.1	0.0	27.9
<b>Kansas</b>	0.0	0.2	85.2	0.0	14.6
<b>Kentucky</b>	0.0	0.0	60.2	0.0	39.8
<b>Minnesota*</b>	2.4	0.0	55.5	0.0	42.0
<b>Missouri*</b>	0.0	2.4	55.4	2.5	39.7

Nebraska*	0.5	0.0	65.5	0.0	34.1
North Carolina	18.7	0.0	0.0	0.0	81.3
North Dakota	0.0	0.0	57.2	0.0	42.8
South Dakota*	0.9	0.0	50.9	0.0	48.2
Wisconsin*	0.0	0.0	0.0	0.0	100.0

\*States contiguous with Iowa.

Finally, local governments nationally receive 39 percent of their selective sales tax revenues from Other Selective Sales Taxes, which include taxes on specific commodities, businesses, or services not reported separately above (e.g., on contractors, hotel/motel, lubricating oil, fuels other than motor fuel, motor vehicles, meals, soft drinks, margarine, etc.). Unfortunately, the Census Bureau does not report revenues from these individual selective sales taxes so there is no way to determine the relative importance of individual taxes. As a category, however, these taxes account for a relatively large share of local revenues from selective sales taxes.

For Iowa, local governments receive 27.9 percent of their selective sales tax revenues from this catch-all category, significantly less than the 39.0 percent of selective sales tax revenues for local governments nationally. In addition to local governments in Iowa, local governments in four of the similarly situated states also receive a smaller share of their selective sales taxes from this category than local governments nationally.

#### *Local Income Taxes*

The District of Columbia and local governments in twelve other states generate revenue from the personal income tax. Local governments in Maryland generate 33.1 percent of their tax revenues from the personal income tax while local governments in Iowa generate 1.7 percent of their tax revenues from the personal income tax.<sup>3</sup> Local governments in only two similarly situated states generate tax revenues from a local income tax – local governments in Kentucky where the local income tax generates 27.8 percent of local tax revenues and Missouri where it generates 4.1 percent of local tax revenues.

Local income taxes can be implemented in a variety of ways. For example, in Maryland local governments have the option of adding a “piggy back” local income tax to the state income tax. Maryland’s 23 counties and Baltimore City levy a local income tax which the state collects on the state income tax return as a convenience for local governments. The local income tax is calculated as a percentage of taxable income. Local officials set the rates, which range between 1.25 percent and 3.20 percent for tax year 2008. The local income tax is based on where the taxpayer lives, not where they work.

In Pennsylvania, the local income tax is essentially a wage tax. The tax is called an *earned income tax* and is levied only on residents' earned income (such as wages, salaries, or other reimbursements for work). Unearned income, such as interest, dividends, pensions, and social security are exempt from the tax. Unlike the federal or state income taxes, the earned income tax allows no exemptions or standard deductions. A jurisdiction can collect earned

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<sup>3</sup> In between these two extremes are local governments in ten other states – Alabama (2.6 percent), Delaware (7.6 percent), Indiana (6.6 percent), Kentucky (27.8 percent), Michigan (3.8 percent), Missouri (4.1 percent), New York (11.8 percent), Ohio (20.9 percent), Oregon (2.5 percent) and Pennsylvania (16.5 percent).

income tax from non-residents who work in the jurisdiction, but do not pay an earned income tax in their "home" jurisdiction. The maximum levy is 1 percent of earned income. If both the municipality and school district levy the earned income tax, they must share the 1 percent.

Ohio has two local income taxes, one for municipalities and one for school districts. The primary municipal income tax is assessed on employees based upon the place where they work. This is in contrast to the local income tax in Maryland where the tax is assessed by the jurisdiction where the taxpayer lives. In Ohio, there is a secondary municipal income tax liability calculated based upon where the taxpayer lives. In other words, the municipal income tax in Ohio is split between the jurisdiction of residence and the jurisdiction of employment. The secondary tax liability for the jurisdiction of residence requires that tax withholdings be made for the place of an employee's residence provided that the municipality of residence has a tax and to the extent that it is not already covered by a reciprocal tax credit from the work location.

The second local income tax in Ohio is the school district income tax created in 1989. Employees incur school district income tax liability based upon the school district in which they live. The base of the tax is personal income from all sources. There is no ceiling on the allowable income tax rate. Adoption of any rate increase must be approved by district residents. Of Ohio's 610 school districts, only 119 have adopted the income tax. The vast majority of districts adopting the income tax are large-area, rural districts; very few districts in metropolitan areas adopted the income tax. Districts that adopted the income tax were more likely to have disproportionate amounts of farmland, a nonresidential tax base that is more often owned by local residents. Farms often have large amounts of taxable real property but low current incomes and are thus less likely to support property taxes.<sup>4</sup>

### ***Local Reliance on Own-Source Revenues: Current Charges***

Nationally, according to data in Appendix Table 3, local governments generate 25.7 percent of their own source revenues from current charges. Current charges include revenues from a number of different activities carried out by local government. The Census Bureau defines current charges as "amounts received from the public for performance of specific services which benefit the person charged and from the sale of commodities or services other than utilities and liquor stores." Current charges are reported on a gross basis without deducting the cost of providing related services. The various elements of current charges include the following categories of revenue:

- Education which includes revenues from school lunch programs, school tuition from pupils and parents for tuition and transportation, and other revenues from athletic contests, sale or rental of textbooks, student activity funds, and the like. Education generates 11.4 percent of local revenues from current charges nationally.
- Public Hospitals which includes charges from patients, private insurance companies, and public insurance programs (such as Medicare) of public hospitals and of institutions for care and treatment of the handicapped; and

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<sup>4</sup> William A. Fischel, "Fiscal Equalization and the Median Voter: The Simple 2.8Analytics of School-Finance Reform," November 30, 2008, mimeograph.

receipts of hospital canteens, cafeterias, gift shops, etc. Public hospitals generate 26.3 percent of local revenues from current charges nationally.

- Highways which includes reimbursements for street construction and repairs; fees for street cuts and special traffic signs; and maintenance assessments for street lighting, snow plowing, and other highway or street services unrelated to toll facilities. Also may include fees from turnpikes, toll roads, bridges, ferries, and tunnels; rents and other revenue from concessions (service stations, restaurants, etc.); and other charges for use of toll facilities. Highways generate 3.0 percent of local revenues from current charges nationally.
- Air Transportation which includes hangar rentals, landing fees, terminal and concession rents, sale of aircraft fuel and oil, parking fees at airport lots, and other charges for use of airport facilities or for services associated with their use. Air transportation activities generate 7.3 percent of local revenues from current charges nationally.
- Parking Facilities which includes revenue from on-street and off-street parking meters and charges and rentals from government-owned parking lots or public garages. Parking facilities generate 0.8 percent of local revenues from current charges nationally.
- Sea and Inland Port Facilities which includes canal tolls, rents from leases, concession rents, and other charges for use of commercial or industrial water transport and port terminal facilities and related services. Ports facilities generate 1.3 percent of local revenues from current charges nationally.
- Natural Resources which includes revenues from the sale of minerals and other natural products from public lands. Natural resources generate 0.6 percent of local revenues from current charges nationally.
- Parks and Recreation which includes gross revenues of facilities operated by a government (swimming pools, recreational marinas and piers, golf courses, skating rinks, museums, zoos, etc.); auxiliary facilities in public recreation areas (camping areas, refreshment stands, gift shops, etc.); lease or use fees from stadiums, auditoriums, and community and convention centers; and rentals from concessions at such facilities. Parks generate 3.6 percent of local revenues from current charges nationally.
- Housing and Community Development Charges which includes gross rentals, tenant charges, and other revenue from operation of public housing projects; and fees for housing mortgage insurance (e.g., FHA-insured loans). Housing and community development charges generate 2.3 percent of local revenues from current charges nationally.

- Sewerage which includes charges for sewage collection and disposal, including sewer connection fees. Sewerage fees generate 17.1 percent of local revenues from current charges nationally.
- Solid Waste Management which includes fees for garbage collection and disposal; operation of landfills; sale of recyclable materials; cleanup of hazardous wastes; and sale of electricity, gas, steam, or other by-products of waste resource recovery or cogeneration facilities. Solid waste management fees generate 6.7 percent of local revenues from current charges nationally.
- All Other General Current Charges which include charges not covered by any of the above categories, such as those derived from court and recording fees, police, fire, correction, defense, public welfare, public nursing homes, public libraries, and health activities. Other current charges generate 19.6 percent of local revenues from current charges nationally.

While there is some variation in some of the categories which account for relatively small shares of local revenue from current charges, five categories account for the vast majority of local revenues from current charges – education (11.4 percent), hospitals (26.3 percent), sewerage (17.1 percent), solid waste management (6.7 percent), and other current charges (19.6 percent).

Local governments in Mississippi, which had the lowest dependence on local taxes, depend on current charges for 47.2 percent of their own revenues – the highest in the country. Four other states depend on current charges for more than 40 percent of their own source revenues – Alabama (42.5 percent), Idaho (43.5 percent), South Carolina (40.6 percent) and Wyoming (43.8 percent). Local governments in all five of these states are among those with the least reliance on taxes as a source of own revenues.

Local governments in Iowa generated 31.7 percent of their own revenues from current charges – a share that is 23 percent higher than the share for local governments nationally. Local governments in nine of the 12 states similarly situated to Iowa receive a smaller share of own-source revenues from charges than do local governments in Iowa and seven of the 12 similarly situated states have local governments that are less dependent of charges than local governments nationally.

Local governments nationally receive 2.9 percent of own-source revenues from education charges. Local governments in Iowa received 6.7 percent of own-revenues from education charges while local governments in all but one of the 12 states similarly situated to Iowa (Kentucky, 2.0 percent) depend on education charges to a greater extent than local governments nationally, albeit local governments in Iowa have the greatest dependence of the group. Local governments nationally receive 6.8 percent of their own-source revenues from hospital charges, while local governments in Iowa receive more than twice that share from hospital charges (13.8

percent). For local governments in the 12 states similarly situated to Iowa half rely more than the national average on hospital charges as a source of own-source revenues and half rely less than the national average.

Similar patterns emerge from local government reliance on sewerage and solid waste management charges. For sewerage charges local governments in Iowa are somewhat less dependent than local governments nationally, 4.2 and 4.4 percent respectively. Half of the comparison states are below the national average and half above. The same patterns emerge for solid waste management charges as well. Local governments in Iowa are somewhat more dependent on solid waste management charges as a share of own-source revenues than local governments nationally, 2.0 compared to 1.7 percent respectively. Half of the comparison states have local governments more dependent on such charges than local governments nationally, with local governments in the other six states with shares equal to or below the national average.

Finally, local governments nationally generate 5.0 percent of their own-source revenues from Other Charges. Again, half of the similarly situated states have local governments more dependent on Other Charges than local governments nationally, and half have local governments less dependent. Local governments in Iowa receive 2.8 percent of their own-source revenues from Other Charges, the lowest share of any of the similarly situated states.

Table 7  
Charges as a Share of Local Own-Source Revenues  
Iowa and Similarly Situated States, 2006  
(Percent)

	Charges as a Share of Local Own-Source Revenues	Share of Own Revenues from Education	Share of Own Revenues from Hospitals	Share of Own Revenues from Sewerage	Share of Own Revenues from Solid Waste Management	Share of Own Revenues from Other Charges
<b>United States</b>	25.7	2.9	6.8	4.4	1.7	5.0
<b>Arkansas</b>	30.1	4.5	6.7	6.3	3.7	6.1
<b>Idaho</b>	43.5	3.1	22.3	5.3	3.7	5.7
<b>Illinois*</b>	23.2	3.3	2.4	2.6	0.5	3.6
<b>Iowa</b>	31.7	6.7	13.8	4.2	2.0	2.8
<b>Kansas</b>	24.9	5.3	8.3	4.0	1.7	3.5
<b>Kentucky</b>	23.0	2.0	5.0	5.7	1.7	3.9
<b>Minnesota*</b>	35.7	3.9	9.5	5.1	2.0	8.2
<b>Missouri*</b>	25.9	5.2	8.1	4.3	0.7	3.7
<b>Nebraska*</b>	24.0	4.3	8.2	2.9	1.3	4.0
<b>North Carolina</b>	38.1	3.0	16.7	7.7	2.3	5.7
<b>North Dakota</b>	19.8	3.8	0.0	3.2	3.4	3.6
<b>South Dakota*</b>	21.3	4.2	2.3	3.5	2.1	6.4
<b>Wisconsin*</b>	22.7	4.0	0.6	4.8	1.3	8.0

\*States contiguous with Iowa.

### ***Local Reliance on Own-Source Revenues: Miscellaneous General Revenue***

The final component of own source revenues is miscellaneous general revenue. According to the Census definition, miscellaneous general revenue is comprised of general revenue that does not fall into one of the other categories of general revenue – taxes, intergovernmental revenue, or current charges. Specifically, miscellaneous general revenues include revenues from:

- Special Assessments -- compulsory contributions and reimbursements from owners of property who benefit from specific public improvements; and impact fees to fund extension of water, sewer, roads, and other infrastructure facilities in new developments.
- Sale of Property -- amounts received from sale of real property, buildings, improvements to them, land easements, rights-of-way, and other capital assets (buses, automobiles, etc.), including proceeds from sale of operating and non-operating property of utilities.
- Interest Earnings -- amounts from interest on all interest-bearing deposits and accounts; accrued interest on investment securities sold; interest on funds held for construction; and interest related to public debt for private purposes.
- Fines and Forfeits -- revenue from penalties imposed for violations of law; civil penalties (e.g., for violating court orders); court fees if levied upon conviction of a crime or violation; court-ordered restitutions to crime victims where government actually collects the monies; and forfeits of deposits held for performance guarantees or against loss or damage (such as forfeited bail and collateral).
- Rents -- revenue from allowing temporary possession of government-owned buildings, land, or other fixed properties, such as from grazing fees, timberland leases, rental of unused land or property (including non-operating property of a government utility), and revenue from leases (or lease bonus payments) of land relating to natural resource exploration and production.
- Royalties -- compensation or portion of proceeds received by a state or local government for granting the privilege of using or developing property or operating under a right, primarily those related to natural resources, such as oil, gas, and mineral rights.
- Net Lottery Revenue -- proceeds from the operation of government-sponsored lotteries after deducting the cost of prizes.

Nationally, local governments generate 11.2 percent of their own revenues from miscellaneous general revenues.<sup>5</sup> Local governments in Iowa generate 9.1 percent of their own revenues from miscellaneous revenues – a share that is nearly 20 percent below the share for local governments nationally. Again the pattern across similarly situated states is mixed. Six of the 12 comparison states have local governments more dependent of miscellaneous general revenues than local governments nationally and six have local governments less dependent than local governments nationally. Local governments in only four states – Idaho (7.0 percent), Missouri (8.8 percent), South Dakota (7.9 percent) and Wisconsin (7.4 percent) – are less dependent on miscellaneous charges than local governments in Iowa.

Table 8  
Miscellaneous General Revenues as a Share of  
Local Own-Source Revenues,  
Iowa and Similarly Situated States, 2006  
(Percent)

	Miscellaneous General Revenues as a Share of Local Own-Source Revenues
<b>United States</b>	11.2
<b>Arkansas</b>	16.8
<b>Idaho</b>	7.0
<b>Illinois*</b>	9.4
<b>Iowa</b>	9.1
<b>Kansas</b>	12.9
<b>Kentucky</b>	15.7
<b>Minnesota*</b>	18.0
<b>Missouri*</b>	8.8
<b>Nebraska*</b>	14.4
<b>North Carolina</b>	9.6
<b>North Dakota</b>	17.6
<b>South Dakota*</b>	7.9
<b>Wisconsin*</b>	7.4
<b>*States contiguous with Iowa.</b>	

### ***Summary of Local Revenues***

There are 50 state/local systems of government in the US. Each system creates governmental organizations and institutions in a manner reflecting their history, culture and political environment. The only generalization that one can make about this system of subnational government is that things vary significantly across states so that one cannot make meaningful generalizations about local government finance in the US.

In that context, we can contrast the system of local government finance in Iowa with a set of similarly situated states. For example, local own-source revenues in Iowa claim 7.1 percent of

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<sup>5</sup> The Census data does not break down the relative importance of each component of miscellaneous charges; rather total revenues are reported for this category.

personal income in the state, exactly the same as local governments nationally, but higher than all the similarly situated states but one. Local governments in Iowa are a bit more dependent on own-source revenues (63.5 percent of local general revenues) than local governments nationally (61.7 percent), but are about in the middle for local governments in similarly situated states.

In terms of own-source revenues, local governments in Iowa are somewhat less reliant on the local taxes as a source of general revenues (59.2 percent of own-source revenues) than local governments nationally (63.1 percent), and less reliant on taxes than local governments in eight of the 12 similarly situated states. Local governments in Iowa are more dependent on current charges (31.7 percent of own-source revenues) than local governments nationally (25.7 percent), and local governments in nine of the 12 similarly situated states. In terms of tax revenues, local governments in Iowa are more dependent on local property taxes (82 percent of local tax revenues) than local governments nationally (71.7 percent) and local governments in eight of the 12 similarly situated states.

**Conclusion**

This research note has identified the major components of local government revenue sources across the fifty states and the District of Columbia. As explained above and illustrated in the accompanying tables, there is wide variation across states in terms of the size of the public sector and how they raise revenue.

Variances across states on revenue collection are attributable to many different factors. Some areas of the country have traditionally had strong local government autonomy, and those areas still see heavy reliance on property taxes. In some states, local governments operate under significant property tax limitations and as a consequence property tax reliance is lower than the rest of the country. In some states the public sector is more centralized at the state level leaving fewer responsibilities for local governments. In addition, many other factors like historical, cultural and political differences contribute to differences across states in local taxation and revenue raising policies.

Appendix Table 1 Size of Local Public Sector by State, 2006		
	General Revenue as a Share of Personal Income	Own-Source Revenues as a Share of Personal Income
United States Total	11.5%	7.1%
Alabama	10.4%	6.4%
Alaska	12.5%	7.4%
Arizona	11.3%	6.5%
Arkansas	9.3%	4.2%
California	13.6%	7.2%
Colorado	10.8%	7.8%
Connecticut	7.8%	5.2%

Delaware	7.4%	3.7%
District of Columbia	28.3%	18.8%
Florida	11.7%	8.2%
Georgia	11.2%	7.6%
Hawaii	4.6%	3.7%
Idaho	10.2%	6.3%
Illinois	10.9%	7.3%
Indiana	11.9%	7.8%
Iowa	11.1%	7.1%
Kansas	10.9%	7.0%
Kentucky	8.4%	4.8%
Louisiana	12.2%	7.3%
Maine	9.9%	6.7%
Maryland	8.8%	5.9%
Massachusetts	8.7%	5.0%
Michigan	11.5%	6.1%
Minnesota	10.9%	5.6%
Mississippi	12.7%	6.7%
Missouri	9.8%	6.5%
Montana	9.7%	5.5%
Nebraska	11.0%	7.8%
Nevada	12.3%	7.2%
New Hampshire	8.5%	5.7%
New Jersey	9.6%	6.6%
New Mexico	11.6%	5.2%
New York	16.5%	10.7%
North Carolina	10.7%	6.3%
North Dakota	9.5%	5.7%
Ohio	12.4%	7.4%
Oklahoma	8.6%	5.1%
Oregon	11.3%	6.7%
Pennsylvania	10.9%	6.4%
Rhode Island	8.9%	5.8%
South Carolina	11.0%	7.5%
South Dakota	8.3%	5.6%
Tennessee	9.1%	6.1%
Texas	10.3%	7.3%
Utah	10.2%	6.4%
Vermont	9.2%	2.7%
Virginia	9.6%	6.1%
Washington	10.7%	6.6%
West Virginia	8.6%	4.4%
Wisconsin	11.5%	6.3%
Wyoming	15.8%	10.0%

Appendix  
Table 2  
Local General Revenues – Intergovernmental and Own-Source  
By State  
2006

State	Total	Intergovernmental Revenues		Own Source Revenues
		From Federal Govt.	From State Govt	Total
United States	38.3%	4.4%	33.9%	61.7%
Alabama	38.8%	4.8%	34.1%	61.2%
Alaska	40.5%	8.2%	32.4%	59.5%
Arizona	42.4%	5.5%	36.9%	57.6%
Arkansas	55.4%	3.6%	51.8%	44.6%
California	47.3%	4.2%	43.1%	52.7%
Colorado	27.8%	3.4%	24.4%	72.2%
Connecticut	33.3%	3.2%	30.1%	66.7%
Delaware	49.6%	2.6%	47.0%	50.4%
District of Columbia	33.4%	33.4%	0.0%	66.6%
Florida	29.8%	5.2%	24.5%	70.2%
Georgia	32.5%	3.2%	29.3%	67.5%
Hawaii	19.2%	8.2%	10.9%	80.8%
Idaho	38.8%	3.1%	35.7%	61.2%
Illinois	33.6%	5.8%	27.8%	66.4%
Indiana	34.7%	1.8%	33.0%	65.3%
Iowa	36.5%	3.8%	32.7%	63.5%
Kansas	35.7%	2.4%	33.3%	64.3%
Kentucky	43.1%	3.8%	39.3%	56.9%
Louisiana	40.5%	6.2%	34.2%	59.5%
Maine	32.7%	2.8%	29.9%	67.3%
Maryland	32.4%	5.3%	27.2%	67.6%
Massachusetts	42.2%	5.1%	37.1%	57.8%
Michigan	46.9%	4.2%	42.8%	53.1%
Minnesota	49.1%	3.3%	45.7%	50.9%
Mississippi	46.8%	5.3%	41.5%	53.2%
Missouri	33.4%	4.5%	28.9%	66.6%
Montana	43.4%	7.6%	35.8%	56.6%
Nebraska	29.1%	3.0%	26.0%	70.9%
Nevada	41.3%	4.9%	36.4%	58.7%
New Hampshire	32.6%	2.9%	29.7%	67.4%
New Jersey	31.7%	2.4%	29.4%	68.3%
New Mexico	55.0%	5.1%	49.9%	45.0%
New York	34.9%	3.5%	31.4%	65.1%
North Carolina	41.4%	3.4%	37.9%	58.6%
North Dakota	39.5%	5.6%	33.9%	60.5%
Ohio	40.5%	4.1%	36.4%	59.5%
Oklahoma	40.3%	3.7%	36.6%	59.7%
Oregon	40.8%	5.7%	35.1%	59.2%
Pennsylvania	41.1%	6.1%	35.1%	58.9%

Rhode Island	34.7%	4.3%	30.4%	65.3%
South Carolina	31.7%	2.2%	29.5%	68.3%
South Dakota	32.5%	6.7%	25.8%	67.5%
Tennessee	33.0%	3.6%	29.4%	67.0%
Texas	28.7%	3.9%	24.7%	71.3%
Utah	37.4%	4.8%	32.7%	62.6%
Vermont	70.2%	3.4%	66.7%	29.8%
Virginia	36.4%	3.3%	33.2%	63.6%
Washington	38.9%	5.2%	33.7%	61.1%
West Virginia	48.7%	5.3%	43.3%	51.3%
Wisconsin	45.4%	2.9%	42.5%	54.6%
Wyoming	36.7%	2.6%	34.1%	63.3%

Appendix Table 3

Composition of Local Own-Source Revenues by State, 2006

State	Tax revenues	Current charges	Miscellaneous General Rev
United States	63.1%	25.7%	11.2%
Alabama	46.2%	42.5%	11.3%
Alaska	63.7%	24.0%	12.3%
Arizona	63.9%	23.8%	12.3%
Arkansas	53.1%	30.1%	16.8%
California	51.4%	33.8%	14.8%
Colorado	59.9%	26.9%	13.3%
Connecticut	85.4%	9.6%	5.0%
Delaware	61.1%	27.9%	11.0%
District of Columbia	74.4%	9.4%	16.2%
Florida	55.2%	30.3%	14.4%
Georgia	61.7%	27.4%	10.9%
Hawaii	73.6%	20.4%	6.0%
Idaho	49.4%	43.5%	7.0%
Illinois	67.4%	23.2%	9.4%
Indiana	58.2%	27.5%	14.3%
Iowa	59.2%	31.7%	9.1%
Kansas	62.2%	24.9%	12.9%
Kentucky	61.3%	23.0%	15.7%
Louisiana	62.9%	25.2%	11.9%
Maine	77.3%	16.4%	6.3%
Maryland	76.2%	16.9%	6.8%
Massachusetts	76.0%	17.2%	6.8%
Michigan	59.1%	29.6%	11.3%
Minnesota	46.3%	35.7%	18.0%
Mississippi	42.1%	47.2%	10.7%
Missouri	65.3%	25.9%	8.8%
Montana	56.2%	28.9%	14.8%
Nebraska	61.6%	24.0%	14.4%
Nevada	53.9%	29.3%	16.9%
New Hampshire	82.0%	12.5%	5.5%
New Jersey	79.2%	14.1%	6.8%

New Mexico	61.7%	24.9%	13.4%
New York	75.3%	16.6%	8.1%
North Carolina	52.3%	38.1%	9.6%
North Dakota	62.7%	19.8%	17.6%
Ohio	66.3%	22.3%	11.4%
Oklahoma	58.1%	31.8%	10.2%
Oregon	57.9%	29.8%	12.3%
Pennsylvania	68.3%	20.3%	11.4%
Rhode Island	83.8%	10.8%	5.4%
South Carolina	49.1%	40.6%	10.3%
South Dakota	70.8%	21.3%	7.9%
Tennessee	55.2%	34.1%	10.7%
Texas	66.3%	22.8%	10.9%
Utah	59.8%	26.8%	13.4%
Vermont	59.1%	25.6%	15.3%
Virginia	70.7%	20.6%	8.7%
Washington	55.8%	34.0%	10.1%
West Virginia	59.0%	25.8%	15.2%
Wisconsin	69.9%	22.7%	7.4%
Wyoming	48.4%	43.8%	7.8%

Appendix Table 4

Share of Local Tax Revenues by Source and State, 2006

State	Property	General Sales	Selective Sales	Individual Income	Corporate Income	Other Taxes
United States	71.7%	11.5%	4.9%	4.7%	1.1%	6.1%
Alabama	39.6%	38.3%	6.5%	2.6%	0.0%	13.1%
Alaska	77.5%	14.5%	4.7%	0.0%	0.0%	3.3%
Arizona	63.7%	26.0%	3.9%	0.0%	0.0%	6.4%
Arkansas	43.0%	47.7%	7.3%	0.0%	0.0%	2.0%
California	66.7%	15.5%	7.5%	0.0%	0.0%	10.2%
Colorado	60.6%	31.0%	3.1%	0.0%	0.0%	5.4%
Connecticut	97.8%	0.0%	0.0%	0.0%	0.0%	2.2%
Delaware	70.1%	0.0%	1.2%	7.6%	0.0%	21.1%
District of Columbia	26.7%	18.0%	9.7%	27.1%	4.8%	13.7%
Florida	77.5%	4.0%	12.1%	0.0%	0.0%	6.4%
Georgia	63.4%	26.4%	6.4%	0.0%	0.0%	3.8%
Hawaii	76.7%	0.0%	12.2%	0.0%	0.0%	11.1%
Idaho	91.1%	0.0%	2.5%	0.0%	0.0%	6.4%
Illinois	81.2%	5.4%	10.1%	0.0%	0.0%	3.4%
Indiana	90.1%	0.0%	0.9%	6.6%	0.0%	2.4%
Iowa	82.0%	11.4%	3.3%	1.7%	0.0%	1.6%
Kansas	76.8%	16.8%	4.4%	0.0%	0.0%	2.0%
Kentucky	53.1%	0.3%	11.5%	27.8%	3.1%	4.2%
Louisiana	39.9%	52.2%	4.6%	0.0%	0.0%	3.3%
Maine	98.3%	0.0%	0.1%	0.0%	0.0%	1.6%
Maryland	48.2%	0.0%	4.5%	33.1%	0.0%	14.2%

Massachusetts	96.3%	0.0%	1.4%	0.0%	0.0%	2.3%
Michigan	91.7%	0.0%	2.1%	3.8%	0.0%	2.3%
Minnesota	91.2%	1.3%	2.8%	0.0%	0.0%	4.7%
Mississippi	92.7%	0.0%	3.1%	0.0%	0.0%	4.2%
Missouri	61.0%	22.5%	7.0%	4.1%	0.3%	5.1%
Montana	96.8%	0.0%	0.4%	0.0%	0.0%	2.8%
Nebraska	76.6%	8.2%	3.1%	0.0%	0.0%	11.0%
Nevada	65.0%	4.3%	16.5%	0.0%	0.0%	14.2%
New Hampshire	98.3%	0.0%	0.0%	0.0%	0.0%	1.7%
New Jersey	97.6%	0.0%	0.5%	0.0%	0.0%	1.8%
New Mexico	48.2%	39.0%	5.0%	0.0%	0.0%	7.8%
New York	55.0%	15.9%	2.8%	11.8%	7.6%	6.9%
North Carolina	74.2%	18.7%	2.0%	0.0%	0.0%	5.0%
North Dakota	84.8%	11.1%	1.9%	0.0%	0.0%	2.2%
Ohio	67.1%	7.8%	0.9%	20.9%	0.2%	3.1%
Oklahoma	52.4%	40.0%	4.2%	0.0%	0.0%	3.5%
Oregon	76.1%	0.0%	6.4%	2.5%	1.1%	14.0%
Pennsylvania	70.7%	1.0%	1.4%	16.5%	0.0%	10.3%
Rhode Island	97.3%	0.0%	0.3%	0.0%	0.0%	2.3%
South Carolina	84.3%	2.0%	4.1%	0.0%	0.0%	9.5%
South Dakota	72.9%	22.3%	1.3%	0.0%	0.0%	3.4%
Tennessee	62.6%	26.6%	4.9%	0.0%	0.0%	5.9%
Texas	83.0%	10.9%	3.9%	0.0%	0.0%	2.2%
Utah	66.5%	18.8%	8.9%	0.0%	0.0%	5.8%
Vermont	93.5%	1.1%	1.7%	0.0%	0.0%	3.7%
Virginia	71.6%	7.9%	10.4%	0.0%	0.0%	10.0%
Washington	60.3%	20.1%	8.5%	0.0%	0.0%	11.1%
West Virginia	79.7%	0.0%	4.4%	0.0%	0.0%	15.9%
Wisconsin	93.0%	3.1%	0.7%	0.0%	0.0%	3.1%
Wyoming	75.7%	17.6%	2.0%	0.0%	0.0%	4.7%

Appendix Table 5  
Real Estate Transfer Taxes by State

State	Year	Real Estate Transfer Charge and Description	
AK	CY2006	None	
AL	CY2006	Recordation Tax - Deeds and Bills of Sale	The tax rate is \$0.50 for each \$500 (or fraction thereof) of value of property conveyed.
		Recordation Tax - Mortgages and Deeds of Trust	The tax rate is \$0.15 per \$100 (or fraction thereof) of initial indebtedness.
AR	CY2006	Real Property Transfer Tax	The tax rate is \$3.30 per \$1,000 of actual consideration on transactions that exceed \$100.
AZ	CY2006	Deed Recordation Fee	The fee is \$5.00 for the first 5 pages plus \$1.00 for each additional page of recording papers required or authorized by law to be recorded, if the fee is not otherwise specified in this section. The maximum charge for additional pages is \$250. The fee is payable half by the buyer and half by the seller.
CA	CY2006	Documentary Transfer Tax	Counties or counties and cities are authorized to levy a transfer tax at the rate of \$0.55 per \$500 value of the interest or property conveyed (or fraction thereof). Cities within counties that have opted to levy a transfer tax are authorized to levy a transfer tax at the rate of \$0.275 per \$500 value.
CO	CY2006	Documentary Fee	The fee is \$0.01 per \$100 total consideration paid by the purchaser, inclusive of the amount of any lien or encumbrance against the real property granted or conveyed and all charges and expenses required to be paid for the making of such grant or conveyance, on transactions that exceed \$500.
		Failure to File Declaration Fee	Counties are authorized to charge a fee of \$25 or a penalty equal to 0.0025% of the sale price of the real property transferred pursuant to the conveyance document, whichever amount is greater, if the grantee fails to file a declaration

			within 30 days after the date the notice was mailed.
CT	CY2006	Real Estate Conveyance Tax	Real estate conveyances for \$2,000 or more are subject to municipal and state taxes. The municipal conveyance tax rate is 0.25% of the consideration for the interest in real property conveyed. The state conveyance tax rate for unimproved land (including land designated as farm, forest or open space land under Conn. Gen. Stat. § 12-107c, 12-107d and 12-107e) and for all improved property (except residential property when the consideration is above \$800,000) is 0.50%. For residential property when the consideration is more than \$800,000, the conveyance tax rate is 0.50% for the first \$800,000 and 1% for any consideration above \$800,001.
		Additional Real Estate Conveyance Tax for Targeted Communities	In addition to the municipal conveyance tax rate of 0.25% of the consideration (of \$2,001 or more) for the interest in real property conveyed, a targeted investment community (under Conn. Gen. Stat. § 32-222) or community in which properties are designated as manufacturing plants (under Conn. Gen. Stat. § 32-75c) may impose an additional tax of up to 0.25% of the consideration.
DC	CY2006	Deed Recordation Tax	The tax rate is 1.45% of consideration or fair market value. The tax is levied on the recording of all deeds to real estate in the District. The basis of the tax is the value of consideration given for the property. Where there is no consideration or where the consideration is nominal, the tax is imposed on the basis of the fair market value of the property.
		Deed Transfer Tax	The tax rate is 1.45% of consideration or fair market value. The tax is levied on each transfer of real property at the time the deed is submitted for recordation. The tax is based upon the consideration paid for the transfer. Where there is no consideration or where the amount is nominal, the basis of the transfer tax is the fair market value of the property conveyed.
DE	CY2006	Realty Transfer Tax	The tax rate is 2% of the fair market value of the property, divided equally between the grantor and grantee, when the value of the

			<p>property transferred is at least \$100. Local governments are authorized to levy a 1.50% tax. In cases in which the local levy exceeds 1.00%, the state rate decreases to 1.50%. A 1.00% tax is levied on the value of improvements exceeding \$10,000 when the underlying property has been held by the same owner for less than one year.</p>
FL	CY2006	<p>Documentary Stamp Tax - Deeds</p> <hr/> <p>Documentary Stamp Tax - Mortgages</p>	<p>The tax rate is \$0.70 per \$100 (or fraction thereof) of the total consideration paid, or to be paid, for the transfer.</p> <hr/> <p>The tax rate is \$0.35 per \$100 (or portion thereof) of the indebtedness or obligation secured, even if the indebtedness is contingent.</p>
GA	CY2006	<p>Real Estate Transfer Tax</p> <hr/> <p>Intangible Recording Tax</p>	<p>The tax rate is \$1.00 for the first \$1,000 (or fraction thereof) and \$0.10 for each additional \$100 (or fraction thereof) on each deed, instrument, or other writing by which any lands, tenements, or other realty sold is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser or purchasers, or any other person or persons by his or their direction, when the consideration or value of the interest or property conveyed (exclusive of the value of any lien or encumbrance existing prior to the sale and not removed by the sale) exceeds \$100.</p> <hr/> <p>The tax rate is \$1.50 per \$500 (or fraction thereof) on the face amount of the note secured by the recording of the security instrument. "Instrument" or "security instrument" means any written document presented for recording for the purpose of conveying or creating a lien or encumbrance on real estate for the purpose of securing a long-term note secured by real estate.</p>
HI	CY2006	<p>Conveyance Tax</p>	<p>The tax rate is: \$0.10 per \$100 for properties with a value of less than \$600,000; \$0.20 per \$100 for properties with a value of at least \$600,000, but less than \$1,000,000; and \$0.30 per \$100 for properties with a value of \$1,000,000 or greater. For the sale of a condominium or single family residence for which the purchaser is ineligible for a county homeowner's exemption on property tax, the tax rate is: \$0.15 per \$100 for properties with a</p>

			value of less than \$600,000; \$0.25 per \$100 for properties with a value of at least \$600,000, but less than \$1,000,000; and \$0.35 per \$100 for properties with a value of \$1,000,000 or greater.
IA	CY2006	Real Estate Transfer Tax	The tax rate is \$0.80 for each \$500 (or fraction thereof) in excess of \$500 paid for the real property transferred.
ID	CY2006	None	
IL	CY2006	Real Estate Transfer Tax	The tax rate is \$0.50 per \$500 of value (or fraction thereof). Counties are authorized to charge an additional \$0.25 per \$500 of value or fraction thereof. Home rule municipalities are authorized to impose an additional real estate transfer tax.
IN	CY2006	Sales Disclosure Form Filing Fee	The fee is \$5 for the filing of a sales disclosure form, payable to the county auditor.
KS	CY2006	Mortgage Transfer Fee	The fee is 0.26% of the principal debt or obligation which is secured by mortgage.
KY	CY2006	Real Estate Transfer Tax	The tax rate is \$0.50 per \$500 of value (or fraction thereof) as declared in the deed upon the privilege of transferring title to real property. The tax is payable by the grantor named in the deed.
LA	CY2006	None	
MA	CY2006	Deeds Excise Tax	The tax rate is \$4.56 per \$1,000, (or fraction thereof) except that in Barnstable County, the tax rate is \$3.42 per \$1,000 (levied by the state) and \$2.28 per \$1,000 (levied by the county).
MD	CY2006	Transfer Tax	The tax rate is 0.50% of the consideration payable for the instrument of writing. The consideration includes the amount of any mortgage or deed of trust assumed by the grantee. Higher rates may apply to agricultural land. The state transfer tax may be reduced for

			<p>first-time Maryland home buyers. Counties may also impose a transfer tax.</p> <hr/> <p><b>Recordation Tax</b></p> <p>Counties are authorized to establish a recordation tax, applied to each \$500 (or fraction thereof) of consideration payable, or of the principal amount of the debt secured for an instrument of writing. The consideration includes the amount of any mortgage or deed of trust assumed by the grantee.</p> <hr/>
ME	CY2006	<b>Real Estate Transfer Tax</b>	<p>The tax rate is \$2.20 per \$500 (or fraction thereof) of the value of the property being transferred, half payable by the grantor and half payable by the grantee.</p> <hr/>
MI	CY2006	<p><b>County Real Estate Transfer Tax</b></p> <hr/> <p><b>State Real Estate Transfer Tax</b></p>	<p>The tax rate is \$0.55 per \$500 (or fraction thereof) of the total value in counties with population of less than 2,000,000. Counties with population of 2,000,000 or more are authorized to levy a transfer tax of not more than \$0.75 per \$500. The tax is payable by the seller or grantor.</p> <hr/> <p>The tax rate is \$3.75 per \$500 (or fraction thereof) of the total value of the property being transferred.</p> <hr/>
MN	CY2006	<p><b>Deed Tax</b></p> <hr/> <p><b>Mortgage Registry Tax</b></p>	<p>The tax rate is 0.0033 of the net consideration, except in Hennepin and Ramsey Counties, the rate is 0.0034. Net consideration is equal to the total consideration minus the monetary value of any lien that existed on the real property before the sale and is not removed by the sale. There is a minimum tax of \$1.65, except in Hennepin and Ramsey Counties in which it is \$1.70, even when there is no consideration. The seller is liable for the tax.</p> <hr/> <p>The tax rate is 0.0023 in 85 of Minnesota's 87 counties. The tax rate in Hennepin and Ramsey Counties is 0.0024. The tax is imposed on the amount of the debt that is secured by a mortgage. The tax is imposed on the mortgagor. Affordable housing mortgages given to federal, state, or local governments; and agricultural mortgages are exempt.</p> <hr/>
MO	CY2006	<b>None</b>	

MS	CY2006	None	
MT	CY2006	Realty Transfer Certificate	The filing fee is \$40 for each claim, up to a maximum of \$480, except that the filing fee for a transfer involving water rights is \$50 for one water right, and \$10 for each additional water right, up to a maximum of \$300.
NC	CY2006	Excise Tax on Conveyances	The tax rate is \$1.00 per \$500 (or fraction thereof) of the consideration or value of the interest conveyed.
ND	CY2006	None	
NE	CY2006	Documentary Stamp Tax	The tax rate is \$2.25 per \$1,000 (or fraction thereof) value of the real estate transferred.
NH	CY2006	Real Estate Transfer Tax	The tax rate is \$0.75 per \$100 of the price or consideration for the sale, granting, or transfer, imposed on both the buyer and the seller. The total rate is \$1.50 per \$100. The minimum charge is \$20.
NJ	CY2006	Realty Transfer Fees	Multiple realty transfer fees are charged at the point that the deed is recorded. These fees include: (1) a basic fee of \$1.75 per \$500 of the consideration (or fraction thereof) which is paid in part to the state and in part to the county; (2) an additional fee of \$0.75 per \$500 of the consideration (or fraction thereof) for deeds in excess of \$150,000; (3) a general purpose fee that varies from \$0.90 to \$2.15 per \$500 of consideration (or fraction thereof) for deeds in excess of \$350,000; (4) a supplemental fee that varies from \$0.25 to \$1.40 per \$500 of consideration (or fraction thereof) depending on the value of the deed; and, (5) an additional fee which is imposed upon the transfer of deeds for consideration in excess of \$1 million in an amount equal to 1% of the entire consideration. There are partial exemptions from the Realty Transfer Fees accorded to qualifying senior citizens, blind/disabled persons, and property that qualifies as low and moderate income housing. For additional information on New Jersey's Realty Transfer Fees and exemptions from those fees, see N.J. Admin. Code §46:15-5 et seq., and <a href="http://www.newjersey.gov/treasury/taxation/lpt/rtffaq.htm">http://www.newjersey.gov/treasury/taxation/lpt/rtffaq.htm</a> .
NM	CY2006	None	

NV	CY2006	County Real Property Transfer Tax	In counties of population 400,000 or more, the tax rate is \$1.25 per \$500 of value (or fraction thereof) on each deed by which any lands, tenements or other realty is granted, assigned, transferred or otherwise conveyed to, or vested in, another person, where the consideration or value of the interest or property conveyed exceeds \$100. In counties of population less than 400,000, the tax rate is \$0.65 per \$500, and these counties are authorized to levy an additional transfer tax of \$0.05 per \$500 of value where the consideration or value of the interest or property conveyed exceeds \$100.
		State Real Property Transfer Tax	The tax rate is \$1.30 per \$500 of value (or fraction thereof) on each deed by which any lands, tenements or other realty is granted, assigned, transferred or otherwise conveyed to, or vested in, another person, where the consideration or value of the interest or property conveyed exceeds \$100.
NY	CY2006	Real Estate Transfer Tax	The tax rate is \$2.00 per \$500 of consideration (or fraction thereof).
		Additional Real Estate Transfer Tax	The (additional) tax rate is 1% of the consideration (or fraction thereof) attributable to the residential real property where the consideration for the entire conveyance is at least \$1,000,000, payable by the grantee (unless the grantee is exempt, in which case the grantor pays the tax). Residential real property means the following premises that are or may be used in whole or in part as a personal residence at the time of conveyance: a 1-, 2-, or 3-family house; an individual residential condominium unit; a residential cooperative apartment.
OH	CY2006	Real Property Conveyance (Transfer) Fees	The fee is \$1.00 per \$1000 of the value of real property. Counties are authorized to levy an additional real property transfer fee of up to \$3.00 per \$1000 of value of real property transferred. All revenue goes to the county. Some conveyances are exempt from the mandatory transfer fee.
OK	CY2006	Documentary Stamp Tax	The tax rate is \$0.75 per \$500.00 of the consideration (or fraction thereof).
		Real Estate Mortgage	The tax rate is \$0.10 per \$100.00 (or fraction

		Tax	thereof) on mortgages for 5 years or more; \$0.08 per \$100.00 (or fraction thereof) on mortgages for at least 4 years but less than 5 years; \$0.06 per \$100.00 (or fraction thereof) on mortgages for at least 3 years but less than 4 years; \$0.04 per \$100.00 (or fraction thereof) on mortgages for at least 2 years but less than 3 years; \$0.02 per \$100.00 (or fraction thereof) on mortgages for less than 2 years. If the principal debt or obligation secured by the mortgage is less than One Hundred Dollars (\$100.00), the tax is \$0.10. An additional fee of \$5.00 is charged on each mortgage presented to the county treasurer for certification.
OR	CY2006	Real Estate Transfer Tax	The tax rate is \$1.00 per \$1,000 of the selling price, limited to Washington County.
PA	CY2006	Realty Transfer Tax	The tax rate is 1% of the actual consideration or price of the property represented in the deed. When the document has no consideration stated or the transaction is not arm's-length, the tax rate is 1% of the property's actual monetary worth computed through use of assessed value adjusted to market value. Local governments are authorized to levy an additional tax of 1% , which is typically split between municipality and the school district.
RI	CY2006	Real Estate Conveyance Tax	The tax rate is \$2 for each \$500 (or fraction thereof) paid for the purchase of the property.
SC	CY2006	Deed Recording Fee	The fee is \$1.85 per \$500 or (or fraction thereof) of the realty's value.
SD	CY2006	Real Estate Transfer Fee	The tax rate is \$0.50 per \$500 of value (or fraction thereof).
TN	CY2006	Recordation Tax	The tax rate is \$0.37 per \$100 (or major fraction thereof).
		Mortgages, Deeds of Trust and Other Instruments Tax	A tax rate is \$0.115 per \$100 (or major fraction thereof) of the indebtedness so evidenced.
TX	CY2006	None	

UT	CY2006	None	
VA	CY2006	Mortgage Recordation Tax	The tax rate is \$0.25 per \$100 (or fraction thereof) of the amount of bonds or other obligations, secured by deeds of trust or mortgages. The tax is levied when deeds, deeds of trusts, or other instruments conveying an interest in real property are actually recorded.
VT	CY2006	Property Transfer Tax	The tax rate is 0.0125 of property value. On a principal residence, the tax rate is 0.005 on first \$100,000 and 0.0125 on the balance. On a mortgage obtained through the Vermont Housing Finance Agency, the first \$100,000 is exempt, and the tax rate is 0.0125 on the balance. On lands enrolled in the state use value appraisal programs, the tax rate is 0.005.
WA	CY2006	Real Estate Excise Tax	The tax rate is 1.28% of the selling price.
WI	CY2006	Real Estate Transfer Fee	The fee is \$0.30 per \$100 of value (or fraction thereof) on every conveyance not exempted or excluded under this subchapter, payable by the grantor.
WV	CY2006	Excise Tax on the Privilege of Transferring Real Property	The tax rate is \$1.65 per \$500 value (or fraction thereof). Counties are authorized to raise the tax to \$2.20 per \$500 value (or fraction thereof).
WY	CY2006	None	

Source: **Significant Features of the Property Tax**, Lincoln Institute of Land Policy and the George Washington Institute for Public Policy, George Washington University, forthcoming.

Appendix Table 6

Individual Selective Sales Taxes as a Share of Revenues from All Selective Sales Taxes  
By State, 2006

	Alcohol Sales Tax	Motor Fuel Sales Tax	Public Utility Sales Tax	Tobacco Sales Tax	Other Selective Sales Taxes
<b>United States Total</b>	1.9%	5.4%	51.7%	2.0%	39.0%
<b>Alabama</b>	14.5%	23.9%	18.5%	10.9%	32.2%
<b>Alaska</b>	6.0%	0.0%	0.4%	36.6%	57.0%
<b>Arizona</b>	0.0%	0.0%	52.7%	0.0%	47.3%
<b>Arkansas</b>	2.2%	0.0%	79.2%	0.0%	18.5%
<b>California</b>	0.0%	0.0%	65.2%	0.0%	34.8%
<b>Colorado</b>	0.0%	0.0%	59.6%	0.0%	40.4%
<b>Connecticut</b>	0.0%	0.0%	100.0%	0.0%	0.0%
<b>Delaware</b>	0.0%	0.0%	47.8%	0.0%	52.2%
<b>District of Columbia</b>	1.2%	5.5%	48.7%	5.2%	39.5%
<b>Florida</b>	0.0%	20.9%	60.5%	0.0%	18.6%
<b>Georgia</b>	13.6%	0.0%	27.6%	0.0%	58.8%
<b>Hawaii</b>	0.0%	49.0%	51.0%	0.0%	0.0%
<b>Idaho</b>	0.1%	0.0%	57.1%	0.0%	42.8%
<b>Illinois</b>	1.9%	8.1%	45.2%	7.7%	37.1%
<b>Indiana</b>	0.0%	0.0%	16.9%	0.0%	83.1%
<b>Iowa</b>	0.0%	0.0%	72.1%	0.0%	27.9%
<b>Kansas</b>	0.0%	0.2%	85.2%	0.0%	14.6%
<b>Kentucky</b>	0.0%	0.0%	60.2%	0.0%	39.8%
<b>Louisiana</b>	1.1%	0.0%	62.4%	0.0%	36.5%
<b>Maine</b>	0.0%	0.0%	100.0%	0.0%	0.0%
<b>Maryland</b>	0.0%	0.0%	69.7%	0.0%	30.3%
<b>Massachusetts</b>	0.0%	0.0%	0.0%	0.0%	100.0%
<b>Michigan</b>	2.2%	0.0%	26.4%	2.5%	68.9%
<b>Minnesota</b>	2.4%	0.0%	55.5%	0.0%	42.0%
<b>Mississippi</b>	0.0%	5.7%	54.0%	0.0%	40.3%
<b>Missouri</b>	0.0%	2.4%	55.4%	2.5%	39.7%
<b>Montana</b>	0.0%	0.0%	0.0%	0.0%	100.0%
<b>Nebraska</b>	0.5%	0.0%	65.5%	0.0%	34.1%
<b>Nevada</b>	0.0%	18.1%	28.7%	0.0%	53.2%
<b>New Hampshire</b>	0.0%	0.0%	0.0%	0.0%	0.0%
<b>New Jersey</b>	0.0%	0.0%	16.2%	0.0%	83.8%
<b>New Mexico</b>	0.0%	6.9%	47.1%	0.0%	45.9%
<b>New York</b>	1.2%	0.0%	40.1%	6.7%	52.0%
<b>North Carolina</b>	18.7%	0.0%	0.0%	0.0%	81.3%
<b>North Dakota</b>	0.0%	0.0%	57.2%	0.0%	42.8%

<b>Ohio</b>	6.6%	6.9%	12.2%	2.4%	71.9%
<b>Oklahoma</b>	0.0%	1.9%	80.5%	0.0%	17.6%
<b>Oregon</b>	0.1%	4.9%	59.8%	0.0%	35.2%
<b>Pennsylvania</b>	0.0%	0.0%	5.9%	0.0%	94.1%
<b>Rhode Island</b>	0.0%	0.0%	0.0%	0.0%	100.0%
<b>South Carolina</b>	0.1%	0.0%	37.5%	0.0%	62.4%
<b>South Dakota</b>	0.9%	0.0%	50.9%	0.0%	48.2%
<b>Tennessee</b>	36.9%	0.0%	15.8%	0.0%	47.2%
<b>Texas</b>	1.2%	0.0%	67.5%	0.0%	31.3%
<b>Utah</b>	0.0%	0.0%	41.4%	0.0%	58.6%
<b>Vermont</b>	0.0%	0.0%	26.7%	0.0%	73.3%
<b>Virginia</b>	0.0%	0.0%	48.7%	5.2%	46.0%
<b>Washington</b>	0.0%	0.0%	66.6%	0.0%	33.4%
<b>West Virginia</b>	9.1%	0.0%	61.7%	0.0%	29.1%
<b>Wisconsin</b>	0.0%	0.0%	0.0%	0.0%	100.0%
<b>Wyoming</b>	0.0%	0.0%	87.8%	0.0%	12.2%

# **Chapter 4**

## **Section A.8**

### **Local Spending Patterns Across 50 States**

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The purpose of this research note is to identify the major areas or categories of local government expenditure across states. The first section describes the composition of local government expenditures across states. The final section identifies the portion of local government expenditures made in Iowa and in other states that is used or devoted to providing services to real property within the local government's jurisdiction.

## **Local Expenditures**

To compare expenditure patterns across local governments in the 50 states we rely on data from the US Census Bureau. The Census Bureau reports expenditure data in two ways. First, data are presented by character which relates to the nature of the expenditure. Character categories include:

### Total Expenditure

#### Direct Expenditure

Current operations

Capital Outlays

Construction

Other Capital Outlays

Assistance and Subsidies

Interest on Debt

Insurance Benefits and Repayments

#### Intergovernmental Expenditures

Second, expenditure data are presented by function. The expenditure function refers to the purpose for which a government spends money and, by extension, the service being provided by government. The Census Bureau has more than 5 dozen functional categories in their classification system. These are broken down into four sections of government – general government, utilities, liquor stores, and social insurance trust funds. Since our interest is in the expenditure patterns of local governments which reflect the discretion of local policy makers, we focus on direct general expenditures.

The Census Bureau reports over a dozen categories of local direct general government expenditures. The categories reported by Census, with their national share of local direct general expenditures, are as follows:

- Education (primary, secondary and higher) – 43.7 percent of total local direct general expenditures nationally;
- Libraries – 0.8 percent nationally;

- Public Welfare – 3.8 percent nationally;
- Hospitals – 5.5 percent nationally;
- Health – 3.2 percent nationally;
- Transportation – 6.0 percent nationally;
- Public Safety – 10.8 percent nationally;
- Natural Resources – 0.6 percent nationally;
- Parks and Recreation – 2.5 percent nationally;
- Housing and Community Development – 3.1 percent nationally;
- Sewerage – 3.2 percent nationally;
- Solid Waste – 1.6 percent nationally;
- General Administration – 5.4 percent nationally;
- Interest on Debt – 4.0 percent nationally; and
- General Expenditures N.E.C. – 6.0 percent nationally.

Six of these categories account for three-fourths of total local direct general expenditures nationally – education (43.7 percent), public welfare (3.8 percent), hospitals (5.5 percent), transportation (6.0 percent), public safety (10.8 percent), and general administration (5.4 percent). The relative importance of local direct expenditures on hospitals, however, is influenced heavily by whether or not the local government runs a public hospital. Local governments in nine states allocate more than 10 percent of their total local direct general

expenditures to hospitals,<sup>1</sup> while local governments in eight states do not allocate any local direct general expenditure to hospitals – Connecticut, Delaware, Hawaii, Maryland, New Hampshire, North Dakota, Rhode Island and Vermont.

Appendix Table 1 presents information on the relative importance of the other five major categories of local direct general expenditures. Nationally, local spending on education accounts for 43.7 percent of total local direct general expenditures, but there is a wide range in relative importance across states. For example, local governments in three states allocate more than 60 percent of their total direct general expenditures to education – Delaware (61.4 percent), Vermont (65.8 percent) and West Virginia (60.4 percent). Alternatively, local governments in seven states allocate less than 40 percent of their direct general expenditures to education – California (38.0 percent), Colorado (38.6 percent), Florida (38.4 percent), Louisiana (39.5 percent), Nevada (35.9 percent), New York (38.3 percent), and Washington (39.9 percent).<sup>2</sup>

Local governments in Iowa spend 48.1 percent of total local direct general expenditures on education, a slightly larger share than local governments nationally. For the states similarly situated with Iowa, local governments in only two states spend a smaller share of their direct general expenditures on education than local governments nationally – Minnesota (40.1 percent) and North Carolina (42.3 percent). Of the other 10 similarly situated states, where local governments spend a higher share of direct general expenditures on education than local governments nationally, local governments in seven states allocate a higher share of their direct general expenditures to education than do local governments in Iowa.

Table 1  
Share of Local Direct General Expenditures by Function  
for  
Iowa and Similarly Situated States, 2006  
(Percent)

	Education	Public Welfare	Transportation	Public Safety	Government Administration
<b>United States</b>	43.7	3.8	6.0	10.8	5.4
<b>Arkansas</b>	57.8	0.2	6.1	10.1	4.6
<b>Idaho</b>	45.2	0.8	7.2	9.7	5.6
<b>Illinois*</b>	45.3	1.0	6.7	11.7	6.0
<b>Iowa</b>	48.1	0.9	8.5	7.4	3.7
<b>Kansas</b>	46.4	0.5	7.5	8.9	5.2
<b>Kentucky</b>	50.0	0.4	5.4	10.2	4.7
<b>Minnesota*</b>	40.1	7.0	10.1	8.3	5.1
<b>Missouri*</b>	49.5	0.5	8.1	9.9	5.0
<b>Nebraska*</b>	49.1	1.2	9.3	8.7	5.5
<b>North Carolina</b>	42.3	4.6	2.9	9.0	4.0

<sup>1</sup> Alabama (16.9 percent), Idaho (13.9 percent), Indiana (12.1 percent), Louisiana (10.4 percent), Mississippi (16.4 percent), North Carolina (10.3 percent), South Carolina (18.0 percent), Tennessee (12.6 percent), and Wyoming (21.2 percent).

<sup>2</sup> Local governments in Hawaii spend no funds on education since it is the only state where education is a state responsibility.

<b>North Dakota</b>	50.0	2.1	11.3	7.3	5.5
<b>South Dakota*</b>	49.8	0.6	10.3	8.9	5.8
<b>Wisconsin*</b>	45.8	6.9	9.4	10.4	4.6

**\*States contiguous with Iowa.**

Public safety is the next most important spending category accounting for 10.8 percent of total direct general expenditures of local governments nationally. Again, there is significant variation across states. In Iowa, local governments allocate 7.4 percent of direct general expenditures to public safety, the lowest of the similarly situated states except for North Dakota (7.3 percent). Local governments in only one similarly situated state spend a larger share of their direct general expenditures on public safety than local governments nationally (Illinois, 11.7 percent). Local governments in the other 10 similarly situated states allocate a smaller share of their direct general expenditures for public safety than local governments nationally, but they also allocate a larger share than local governments in Iowa.

Transportation is the next important expenditure category accounting for 6.0 percent of total local direct general expenditures nationally in 2006. While local governments in a couple of states represent extreme outliers – Nevada (12.0 percent) and Rhode Island (2.8 percent), local governments in most states spend a relatively consistent portion of their total local direct expenditures on transportation. Specifically, of the remaining 48 states, nearly 80 percent of them spend between 5 and 10 percent of their total local direct general expenditures on transportation.

Local governments in Iowa allocate 8.5 percent of their direct general expenditures for transportation, a share 40 percent larger than local governments nationally. Local governments in only two of the 12 similarly situated states spend a smaller share of their direct general expenditures on transportation than local governments nationally – Kentucky (5.4 percent) and North Carolina (2.9 percent). Local governments in the other 10 similarly situated states allocate a larger share of their direct general expenditures to transportation than local governments nationally, and three of these 10 states allocate a larger share of their direct general expenditures to transportation than local governments in Iowa.

Expenditures on general administration and public welfare round out the categories of spending that account for three-fourths of total local direct general government spending. While public welfare accounts for 3.8 percent of total local direct general expenditures nationally, that number is driven by a small number of states that have a relatively high share of expenditures going to welfare. Specifically, other than Washington D.C. (23.0 percent), there are only six states where local governments allocate more than 5 percent of direct general expenditures to public welfare – California (7.7 percent), Minnesota (7.0 percent), New York (7.9 percent), Ohio (5.6 percent), Pennsylvania (7.0 percent), and Wisconsin (6.9 percent). At the other extreme, there are 26 states in which local governments allocate less than one percent of their total direct general expenditures for public welfare. Generally, public welfare is considered to be a state and federal responsibility. Local governments in Iowa allocate less than one percent of their direct general expenditures for public welfare and local governments in seven of the 12 similarly situated states allocate one percent or less of their direct general expenditures to public welfare.

Local spending for general government administration accounts for 5.4 percent of direct general expenditures for local governments nationally and is generally pretty uniform across states. Local governments in Iowa allocate just 3.7 percent of their direct general expenditures to government administration. Local governments in five of the 12 similarly situated states allocate a larger share of their direct general expenditures to government administration than local governments nationally. Local governments in none of the remaining similarly situated states allocate a smaller share of spending to government administration than do local governments in Iowa.

Spending patterns of local governments vary across states for a variety of institutional, social, demographic, cultural, historical and political reasons. The next section focuses on those local expenditures thought to be most directly linked to providing benefits for individual properties in the spending jurisdiction.

### **Local Expenditures Directly Benefiting Individual Real Properties**

Generally, the local property tax is considered to be consistent with both the ability-to-pay and the benefits-received principles of taxation. The benefits rationale for the local property tax rests on the argument that locally provided goods and services increase the value of real property and should therefore be paid for by property owners. Such services are generally services that benefit the entire community. These are contrasted to services which benefit the individual consuming those services. In the former case, the property tax is a preferred means of financing community services while user charges are generally thought to be preferable in financing services where the benefits accrue only to the individual consuming the good or service. The focus of this section is on locally provided goods and services which tend to benefit property owners and are generally funded by the property tax.

One of the most fundamental responsibilities of government is to protect property and property rights. Property owners should pay these expenses of government. Other locally provided services also benefit individual properties. One example might be a road network that provides access not only to the property, but to employment and shopping opportunities in the local community. This would be true for most types of infrastructure. In fact, according to the National Council on Public Works Improvement,

“Reliable transportation, clean water and safe disposal of wastes are basic elements of civilized society and a productive economy.” [National Council on Public Works Improvement, 1988, p. 1]

The Council acknowledged that the provision of these community goods and services fall disproportionately on local governments. In this context, locally provided services which are generally thought to benefit directly real property include fire protection, libraries, parks and recreation, police and other public safety services, streets, and water and sewer services. These spending categories are explored in more detail below.

A final, and somewhat more ambiguous service, is locally provided education. Education expenditures may not impact individual properties as directly as police or fire services may because not all households have school aged children. But these expenditures are expenditures

that benefit individual properties. Most directly, if a property is located in a jurisdiction that provides a higher level of education services to its residents, it will be an attractive jurisdiction in which to live and property values will be higher there, everything else equal, than they would be in a jurisdiction providing a lower level of educational services. Thus, a high quality education benefits own-occupants even if they do not have school aged children. We include education expenditures among those that benefit individual properties.

Given this framework, and the expenditure categories defined by the US Census Bureau, we believe the following expenditure categories have a direct impact on real property in a local jurisdiction – education, libraries, hospitals, health, transportation, public safety, parks and recreation, sewerage, solid waste and general government administration.

Local expenditures on libraries account for 0.8 percent of local direct general expenditures nationally. Most states cluster around this percentage. Local governments in Iowa allocate 1 percent of their direct general expenditures to libraries and three of the similarly situated states allocate one percent or more to libraries – Illinois (1.2 percent), Missouri (1.7 percent) and Wisconsin (1.0 percent). Local governments in three states allocated less to libraries than local governments nationally – Nebraska (0.43 percent), North Dakota (0.48 percent) and South Dakota (0.56 percent).

As discussed above, local expenditures on hospitals are heavily influenced by whether or not the local government owns and operates a hospital. For example, local governments in 13 states spend less than one percent of their direct general expenditures on hospitals, while local governments in 9 states allocate more than 10 percent of their direct general expenditures to hospitals. Local governments in Iowa allocate 9.0 percent of their direct general expenditures to hospitals. Local governments in three of the 12 states similarly situated to Iowa allocate a larger share of their spending to hospitals than local governments in Iowa – South Carolina (18.0 percent), Idaho (13.9 percent) and North Carolina (10.3 percent).

Similarly, local governments in most states do not commit significant expenditures to solid waste because that service is often provided by private vendors. Nationally, local governments allocate 1.6 percent of their direct general expenditures to providing solid waste management services; the District of Columbia (3.3 percent) and Hawaii (9.6 percent) are the only places that allocate more than 3 percent of their direct general expenditures to this function. Local governments in Iowa allocate 1.5 percent of their spending to this function. For the 12 similarly situated states local spending on this function generally falls around the range of local governments generally with the highest share being local governments in Arkansas (2.4 percent) and the lowest share being local governments in Missouri (0.5 percent).

Parks and recreation is a final category where local governments commit limited resources. Nationally, local governments allocate 2.5 percent of their direct general expenditures to parks and recreation. While there is variation across states in the relative importance of local spending on parks and recreation, local governments in only 3 states allocate more than 5 percent of their direct general expenditures to this activity – Hawaii (8.2 percent), Illinois (5.2 percent) and Nevada (5.8 percent). Local governments in Iowa spend 2.9 percent of the direct general

expenditures on parks and recreation. Local governments in seven of the 12 similarly situated states spend more than the national average share of direct general expenditures on this function.

Appendix Table 2 presents information on the other 6 categories of expenditures we believe impact real property within the spending jurisdiction. The “Other” column in Appendix Table 2 presents information on the share of local direct general expenditures in libraries, hospitals, parks and recreation and solid waste management. The final column in Appendix Table 2 reflects the share of total local direct general expenditures allocated to the 10 expenditure categories we believe directly impact real property within the spending jurisdiction.

Nationally, local spending that directly impacts real property within the spending jurisdiction accounts for 82.6 percent of total local direct general expenditures. Local governments in most states are clustered around this average share. The highest share is 92.5 percent in Wyoming and the lowest share is 72.4 percent in Hawaii. In Iowa local governments spend approximately 87.7 percent of their total direct general expenditures on these functions, a slightly larger share than local governments nationally. Local governments in ten of the 12 similarly situated states allocate a larger share of their direct general expenditures to these functions than local governments nationally, and three of the 12 states have local governments

Table 2  
Share of Local Direct General Expenditures by Function  
Directly Benefiting Real Property  
for  
Iowa and Similarly Situated States, 2006  
(Percent)

	Education	Health	Transportation	Public Safety	Sewerage	Government Administration	Other	Cumulative Total
<b>United States</b>	43.7	3.2	6.0	10.8	3.2	5.4	10.4	82.6
<b>Arkansas</b>	57.8	0.5	6.1	10.1	3.2	4.6	7.5	89.9
<b>Idaho</b>	45.2	1.8	7.2	9.7	3.4	5.6	19.0	92.0
<b>Illinois*</b>	45.3	1.2	6.7	11.7	2.4	6.0	10.1	83.4
<b>Iowa</b>	48.1	3.1	8.5	7.4	2.5	3.7	14.4	87.7
<b>Kansas</b>	46.4	2.4	7.5	8.9	2.9	5.2	10.0	83.4
<b>Kentucky</b>	50.0	2.1	5.4	10.2	2.8	4.7	7.1	82.3
<b>Minnesota*</b>	40.1	2.5	10.1	8.3	2.4	5.1	11.1	79.6
<b>Missouri*</b>	49.5	2.0	8.1	9.9	3.5	5.0	11.3	89.3
<b>Nebraska*</b>	49.1	1.0	9.3	8.7	2.0	5.5	10.6	86.4
<b>North Carolina</b>	42.3	6.4	2.9	9.0	4.4	4.0	15.2	84.3
<b>North Dakota</b>	50.0	1.7	11.3	7.3	1.7	5.5	6.6	84.3
<b>South Dakota*</b>	49.8	1.1	10.3	8.9	2.9	5.8	22.4	86.6
<b>Wisconsin*</b>	45.8	4.9	9.4	10.4	3.6	4.6	6.1	84.9

\*States contiguous with Iowa.

spending a larger share of their direct general expenditures on these activities than local governments in Iowa.

Education expenditures account for 43.7 percent of total local direct general expenditures and are the largest local expenditure category that impacts real property. Most of the spending on education by local governments is for primary and secondary education – local governments in 20 states spend 100 percent of their educational expenditures on primary and secondary education. Nationally, education expenditures account for 52.9 percent of the expenditures that impact real property, albeit the range is from 41.5 percent in Nevada to 72.0 percent in Vermont.

Expenditures by local governments in Iowa on primary and secondary education account for 88 percent of their education expenditures. Local governments in seven of the 12 similarly situated states spend a smaller share of their education expenditures on primary and secondary education than do local governments nationally, but local governments in only one state (Kansas) allocate a smaller share of their education expenditures to primary and secondary education than local governments in Iowa.

Nationally, health expenditures account for 3.2 percent of total local direct general expenditures. Health expenditures include the follow types of expenditures:

- ❖ General health activities – public health administration, laboratories, public education, vital statistics, research, alcohol and drug abuse prevention/rehabilitation and other general health activities.
- ❖ Categorical health activities – control of cancer, TB, socially transmitted diseases, mental illness, etc. and maternal, activities funded by Federal W.I.C. funds – Women, Infants, and Children, and child health care.
- ❖ Health related inspections – inspection of restaurants, water supplies, food handlers, nursing homes, agricultural standards or protection of agricultural products from disease.
- ❖ Community health care programs – community and visiting nurses; immunization programs; out-patient health clinics.
- ❖ Regulation of air and water quality – sanitary engineering and other environmental activities.
- ❖ Animal control – general animal control plus rabies control, abatement of mosquitoes, rodents, and other vermin.

Local government spending on health in Iowa is about the national average at 3.1 percent of total direct general expenditures. Local governments in two of the 12 similarly situated states spend significantly above the national average on health expenditures – North Carolina (6.4 percent) and Wisconsin (4.9 percent). Local governments in the other 10 similarly situated states allocate a substantially smaller share of their direct general expenditures for health expenditure than local

governments in Iowa or nationally – in fact, local governments in none of these states allocates more than 2.5 percent of their direct general expenditures to this function.

The transportation function is composed of spending by local governments on highways, airports, parking facilities and ports. Not all, in fact not many, local governments own and operate airports and/or ports. Thus, the vast majority of spending on this category falls into the highway function. Nationally, local governments spend 70.6 percent of their transportation spending on highways. The range in share allocated to highway expenditures depends on whether or not local governments operate airports or ports. There are 10 states where local spending on highways accounts for 90 percent or more of their total transportation expenditures. Local governments in four states spend less than 60 percent of their transportation expenditures on highways – Florida (55.1 percent), North Carolina (57.8 percent), Virginia (39.7 percent) and Washington (49.9 percent).

Table 3  
Share of Spending by Function on Specific Activities  
(Percent)

	Share of Education Expenditures on Primary and Secondary Schools	Share of Transportation Expenditures on Highways	Share of Public Safety Expenditures on Police and Fire	Share of Government Administration Expenditures on Judicial and Legal Activities
<b>United States</b>	94.1	70.6	79.0	29.5
<b>Arkansas</b>	100.0	78.5	80.9	23.6
<b>Idaho</b>	94.0	82.3	80.5	33.9
<b>Illinois*</b>	91.1	72.4	87.5	29.2
<b>Iowa</b>	88.0	89.3	82.3	18.5
<b>Kansas</b>	87.0	91.2	86.6	22.7
<b>Kentucky</b>	100.0	67.5	80.5	5.4
<b>Minnesota*</b>	100.0	82.6	75.1	22.5
<b>Missouri*</b>	92.4	71.2	86.8	24.5
<b>Nebraska*</b>	91.8	80.3	79.3	26.1
<b>North Carolina</b>	88.7	57.8	81.5	4.2
<b>North Dakota</b>	100.0	83.2	83.4	18.8
<b>South Dakota</b>	95.5	90.7	80.2	19.0
<b>Wisconsin*</b>	89.8	91.8	79.3	27.0

Local spending on highways in Iowa accounts for 89.3 percent of total transportation spending. Local governments in two of the 12 similarly situated states allocate a smaller share of transportation spending to highways than local governments nationally – Kentucky (67.5 percent) and North Carolina (57.8 percent). Local governments in the other 10 similarly situated states spend more of their transportation expenditures on highways than local governments nationally, and local governments in three of those states spend a greater share of their transportation expenditures on highways than local governments in Iowa – Kansas (91.2 percent), South Dakota (90.7 percent) and Wisconsin (91.8 percent).

The public safety function includes expenditures on police and fire protection, corrections and protective inspections and regulations. Nationally, police and fire protection account for 79 percent of

total local spending on public safety. The share of public safety expenditures allocated to police and fire protection ranges from 63.9 percent in Pennsylvania to 99.3 percent in Vermont.

In Iowa local governments allocate 82.3 percent of their total public safety expenditures to police and fire protection. Of the 12 similarly situated states, local governments in only one state allocate a smaller share of public safety expenditures to police and fire than local governments nationally – Minnesota (75.1 percent). Local governments in the other 11 similarly situated states allocate a greater share of their public safety expenditures to police and fire than local governments nationally and local governments in four of those states allocate a greater share of public safety spending to police and fire than local governments in Iowa – Illinois (87.5 percent), Kansas (86.6 percent), Missouri (86.8 percent) and North Dakota (83.4 percent).

Nationally, local governments allocate 17.2 percent of their spending on public safety for corrections, albeit the range is from a high of 33.2 percent in Pennsylvania to a low of zero percent in Connecticut, Delaware, Hawaii and Vermont. Local governments in Iowa spend 15 percent of their total public safety dollars on corrections. The situation with local governments in the 12 similarly situated states is mixed. Half of the states have local governments that allocate a larger share of public safety expenditures to corrections than local governments nationally, or in Iowa. Similarly, local governments in half the states allocate a smaller share of their public safety expenditures to corrections than local governments nationally or in Iowa (except local governments in Idaho which allocate 16.6 percent of their public safety expenditures to corrections).

Nationally, local governments allocate 3.2 percent of their total direct general expenditures to sewerage. Local governments in Iowa allocate 2.5 percent of their direct general expenditures to sewerage. Of the 12 similarly situated states, local governments in four states allocate a larger share of their direct general expenditures to this function than local governments nationally – Idaho (3.4 percent), Missouri (3.5 percent), North Carolina (4.4 percent) and Wisconsin (3.6 percent).

Finally, local governments nationally spend 5.4 percent of their total direct general expenditures on general government administration. This function is composed of spending on financial administration, judicial and legal activities, government buildings and other general administrative expenditures. Given the discussion above, we assume that the most important activity for owners of real property in a jurisdiction is spending on judicial and legal activities. Nationally, local governments allocate 29.5 percent of their total spending on government administration to judicial and legal activities.

Local governments in Iowa spend 18.5 percent of their expenditures on general government administration on judicial and legal activities. Local governments in one of the similarly situated states spend a larger share of their expenditures on government administration on judicial and legal activities than local governments nationally – Idaho (33.9 percent). All the other similarly situated states have local governments allocating a smaller share of their expenditures on government administration to judicial and legal activities than local governments nationally, and local governments in only two of these states spend a smaller share of their expenditures on government administration on judicial and legal activities than local governments in Iowa – Kentucky (5.4 percent) and North Carolina (4.2 percent).

## Conclusion

On the expenditure side of the budget, we see significant variation in spending patterns across states. Direct general expenditures on education go from zero in Hawaii to 61 percent in Delaware. There are also large variances in public welfare, transportation spending, and public safety although these areas individually make up much smaller parts of local government budgets.

Variances across states in spending patterns are attributable to many different factors. Some areas of the country have traditionally had strong local government autonomy, and those areas see significant spending by local governments in a number of areas. In some states the public sector is more centralized at the state level leaving fewer responsibilities for local governments. In addition, many other factors like historical, cultural and political differences contribute to differences across states in spending patterns.

Appendix Table 1  
Share of Local Direct General Expenditures by Function, 2006

	Education	Public Welfare	Transportation	Public Safety	Gov. Admin	Cumulative Share
<b>United States Total</b>	43.7%	3.8%	6.0%	10.8%	5.4%	69.6%
<b>Alabama</b>	41.7%	0.4%	6.0%	9.0%	4.2%	61.2%
<b>Alaska</b>	48.9%	0.1%	8.6%	8.8%	5.8%	72.2%
<b>Arizona</b>	41.4%	1.2%	7.1%	14.2%	7.5%	71.6%
<b>Arkansas</b>	57.8%	0.2%	6.1%	10.1%	4.6%	78.8%
<b>California</b>	38.0%	7.7%	5.1%	12.6%	6.1%	69.4%
<b>Colorado</b>	38.6%	2.9%	8.2%	10.2%	6.5%	66.4%
<b>Connecticut</b>	55.6%	0.8%	4.0%	9.0%	3.8%	73.3%
<b>Delaware</b>	61.4%	0.0%	6.0%	9.0%	5.3%	81.7%
<b>District of Columbia</b>	18.5%	23.0%	1.3%	12.0%	5.7%	60.4%
<b>Florida</b>	38.4%	1.4%	7.5%	13.9%	6.3%	67.5%
<b>Georgia</b>	47.2%	0.4%	6.2%	10.5%	6.5%	70.8%
<b>Hawaii</b>	0.0%	1.1%	9.3%	21.5%	11.1%	43.0%
<b>Idaho</b>	45.2%	0.8%	7.2%	9.7%	5.6%	68.4%
<b>Illinois</b>	45.3%	1.0%	6.7%	11.7%	6.0%	70.7%
<b>Indiana</b>	42.5%	2.6%	4.6%	8.0%	5.3%	63.0%
<b>Iowa</b>	48.1%	0.9%	8.5%	7.4%	3.7%	68.6%
<b>Kansas</b>	46.4%	0.5%	7.5%	8.9%	5.2%	68.5%
<b>Kentucky</b>	50.0%	0.4%	5.4%	10.2%	4.7%	70.7%
<b>Louisiana</b>	39.5%	0.4%	6.3%	13.4%	6.5%	66.0%
<b>Maine</b>	53.5%	0.9%	8.0%	8.6%	5.1%	76.2%
<b>Maryland</b>	51.5%	0.7%	4.4%	11.5%	5.4%	73.4%
<b>Massachusetts</b>	50.2%	0.3%	3.3%	11.4%	3.5%	68.8%
<b>Michigan</b>	46.0%	2.0%	6.7%	9.6%	5.4%	69.8%

<b>Minnesota</b>	40.1%	7.0%	10.1%	8.3%	5.1%	70.5%
<b>Mississippi</b>	47.7%	0.4%	7.1%	8.4%	5.4%	69.0%
<b>Missouri</b>	49.5%	0.5%	8.1%	9.9%	5.0%	73.1%
<b>Montana</b>	50.7%	1.4%	7.4%	9.6%	5.8%	74.9%
<b>Nebraska</b>	49.1%	1.2%	9.3%	8.7%	5.5%	73.7%
<b>Nevada</b>	35.9%	2.4%	12.0%	14.7%	8.4%	73.4%
<b>New Hampshire</b>	52.9%	4.3%	5.4%	10.6%	5.3%	78.6%
<b>New Jersey</b>	53.4%	2.5%	3.3%	10.4%	4.0%	73.6%
<b>New Mexico</b>	52.4%	1.3%	5.6%	12.3%	5.9%	77.6%
<b>New York</b>	38.3%	7.9%	5.6%	10.0%	3.3%	65.1%
<b>North Carolina</b>	42.3%	4.6%	2.9%	9.0%	4.0%	62.9%
<b>North Dakota</b>	50.0%	2.1%	11.3%	7.3%	5.5%	76.3%
<b>Ohio</b>	43.8%	5.6%	5.6%	9.8%	6.7%	71.6%
<b>Oklahoma</b>	50.5%	0.3%	8.1%	10.0%	6.8%	75.8%
<b>Oregon</b>	43.0%	1.9%	8.1%	11.6%	5.7%	70.4%
<b>Pennsylvania</b>	47.4%	7.0%	4.1%	8.0%	5.3%	71.9%
<b>Rhode Island</b>	56.6%	0.4%	2.8%	15.0%	4.3%	79.2%
<b>South Carolina</b>	48.5%	0.1%	3.0%	8.5%	5.4%	65.5%
<b>South Dakota</b>	49.8%	0.6%	10.3%	8.9%	5.8%	75.4%
<b>Tennessee</b>	41.3%	0.9%	5.4%	11.3%	5.3%	64.2%
<b>Texas</b>	51.0%	0.4%	6.2%	9.7%	4.8%	72.1%
<b>Utah</b>	46.8%	1.2%	7.3%	11.0%	7.2%	73.5%
<b>Vermont</b>	65.8%	0.1%	9.2%	5.5%	4.3%	84.8%
<b>Virginia</b>	46.4%	4.6%	6.1%	11.2%	6.3%	74.7%
<b>Washington</b>	39.9%	0.4%	10.2%	10.9%	5.5%	66.8%
<b>West Virginia</b>	60.4%	0.1%	3.1%	7.2%	6.5%	77.2%
<b>Wisconsin</b>	45.8%	6.9%	9.4%	10.4%	4.6%	77.1%
<b>Wyoming</b>	42.5%	0.4%	6.3%	7.4%	6.0%	62.7%

Appendix Table 2

Share of Local Direct General Expenditures Directly Benefiting Real Property by Function, 2006

	Education	Health	Transportation	Public Safety	Sewerage	Gov. Admin	Other	Total
<b>United States Total</b>	43.7%	3.2%	6.0%	10.8%	3.2%	5.4%	10.4%	82.6%
<b>Alabama</b>	41.7%	2.8%	6.0%	9.0%	3.7%	4.2%	21.9%	89.2%
<b>Alaska</b>	48.9%	1.9%	8.6%	8.8%	2.7%	5.8%	8.9%	85.5%
<b>Arizona</b>	41.4%	1.1%	7.1%	14.2%	3.6%	7.5%	11.1%	86.0%
<b>Arkansas</b>	57.8%	0.5%	6.1%	10.1%	3.2%	4.6%	7.5%	89.9%
<b>California</b>	38.0%	4.9%	5.1%	12.6%	2.7%	6.1%	9.5%	78.8%
<b>Colorado</b>	38.6%	1.5%	8.2%	10.2%	3.6%	6.5%	12.5%	81.0%
<b>Connecticut</b>	55.6%	1.0%	4.0%	9.0%	2.4%	3.8%	4.3%	80.1%
<b>Delaware</b>	61.4%	1.0%	6.0%	9.0%	6.7%	5.3%	2.9%	92.4%
<b>District of Columbia</b>	18.5%	6.3%	1.3%	12.0%	3.0%	5.7%	9.9%	56.6%
<b>Florida</b>	38.4%	1.2%	7.5%	13.9%	3.2%	6.3%	14.3%	84.8%
<b>Georgia</b>	47.2%	3.2%	6.2%	10.5%	3.5%	6.5%	13.9%	91.0%
<b>Hawaii</b>	0.0%	2.3%	9.3%	21.5%	10.5%	11.1%	17.8%	72.4%
<b>Idaho</b>	45.2%	1.8%	7.2%	9.7%	3.4%	5.6%	19.0%	92.0%
<b>Illinois</b>	45.3%	1.2%	6.7%	11.7%	2.4%	6.0%	10.1%	83.4%
<b>Indiana</b>	42.5%	1.0%	4.6%	8.0%	4.5%	5.3%	16.8%	82.7%
<b>Iowa</b>	48.1%	3.1%	8.5%	7.4%	2.5%	3.7%	14.4%	87.7%
<b>Kansas</b>	46.4%	2.4%	7.5%	8.9%	2.9%	5.2%	10.0%	83.4%
<b>Kentucky</b>	50.0%	2.1%	5.4%	10.2%	2.8%	4.7%	7.1%	82.3%
<b>Louisiana</b>	39.5%	1.0%	6.3%	13.4%	3.1%	6.5%	15.3%	85.1%
<b>Maine</b>	53.5%	0.6%	8.0%	8.6%	3.4%	5.1%	6.5%	85.9%
<b>Maryland</b>	51.5%	1.6%	4.4%	11.5%	3.2%	5.4%	8.1%	85.6%
<b>Massachusetts</b>	50.2%	0.5%	3.3%	11.4%	3.2%	3.5%	7.2%	79.4%
<b>Michigan</b>	46.0%	9.0%	6.7%	9.6%	4.1%	5.4%	6.3%	87.1%
<b>Minnesota</b>	40.1%	2.5%	10.1%	8.3%	2.4%	5.1%	11.1%	79.6%
<b>Mississippi</b>	47.7%	1.0%	7.1%	8.4%	2.0%	5.4%	19.7%	91.4%
<b>Missouri</b>	49.5%	2.0%	8.1%	9.9%	3.5%	5.0%	11.3%	89.3%
<b>Montana</b>	50.7%	3.1%	7.4%	9.6%	2.8%	5.8%	7.3%	86.8%
<b>Nebraska</b>	49.1%	1.0%	9.3%	8.7%	2.0%	5.5%	10.8%	86.4%
<b>Nevada</b>	35.9%	1.2%	12.0%	14.7%	2.1%	8.4%	12.2%	86.5%
<b>New Hampshire</b>	52.9%	0.6%	5.4%	10.6%	2.3%	5.3%	4.8%	82.0%
<b>New Jersey</b>	53.4%	1.0%	3.3%	10.4%	2.9%	4.0%	5.3%	80.4%
<b>New Mexico</b>	52.4%	0.6%	5.6%	12.3%	2.0%	5.9%	8.9%	87.9%
<b>New York</b>	38.3%	2.8%	5.6%	10.0%	2.7%	3.3%	11.1%	73.8%
<b>North Carolina</b>	42.3%	6.4%	2.9%	9.0%	4.4%	4.0%	15.2%	84.3%
<b>North Dakota</b>	50.0%	1.7%	11.3%	7.3%	1.7%	5.5%	6.6%	84.3%
<b>Ohio</b>	43.8%	5.5%	5.6%	9.8%	3.9%	6.7%	6.7%	82.1%
<b>Oklahoma</b>	50.5%	1.4%	8.1%	10.0%	3.4%	6.8%	11.4%	91.7%
<b>Oregon</b>	43.0%	4.5%	8.1%	11.6%	4.7%	5.7%	6.5%	84.1%

<b>Pennsylvania</b>	47.4%	6.4%	4.1%	8.0%	3.5%	5.3%	3.3%	78.2%
<b>Rhode Island</b>	56.6%	0.3%	2.8%	15.0%	2.5%	4.3%	3.5%	85.1%
<b>South Carolina</b>	48.5%	0.9%	3.0%	8.5%	2.4%	5.4%	22.4%	91.1%
<b>South Dakota</b>	49.8%	1.1%	10.3%	8.9%	2.9%	5.8%	7.8%	86.6%
<b>Tennessee</b>	41.3%	1.7%	5.4%	11.3%	3.3%	5.3%	17.0%	85.3%
<b>Texas</b>	51.0%	2.0%	6.2%	9.7%	3.0%	4.8%	10.6%	87.3%
<b>Utah</b>	46.8%	2.5%	7.3%	11.0%	4.5%	7.2%	8.4%	87.6%
<b>Vermont</b>	65.8%	0.5%	9.2%	5.5%	3.1%	4.3%	3.1%	91.4%
<b>Virginia</b>	46.4%	4.0%	6.1%	11.2%	3.1%	6.3%	6.9%	84.1%
<b>Washington</b>	39.9%	3.5%	10.2%	10.9%	4.1%	5.5%	13.3%	87.3%
<b>West Virginia</b>	60.4%	1.5%	3.1%	7.2%	4.4%	6.5%	8.6%	91.7%
<b>Wisconsin</b>	45.8%	4.9%	9.4%	10.4%	3.6%	4.6%	6.1%	84.9%
<b>Wyoming</b>	42.5%	2.3%	6.3%	7.4%	2.0%	6.0%	25.9%	92.5%